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The ECONOMIC DIGEST

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The
ECONOMIC DIGEST

NOVEMBER, 1950 VOLUME III NUMBER ELEVEN

Joint Editors: Sir Geoffrey Bracken, K.C.I.E., C.S.I., H. S. Goodwin

SEEN IN PERSPECTIVE

Second Thoughts on Defence

by GRAEME DORRANCE

IN the last issue of *The Economic Digest*, certain broad considerations regarding the economic consequences of the new defence programme were outlined. The main conclusion was that " . . resources will have to be found by reducing consumption expenditure." What follows from this ?

If it is true that consumption must be restricted, certain guiding principles can be evolved. The Government must decide whether to restrict personal expenditure directly, either by taxation or extended rationing, or allow us individually to exercise that self-restraint to which we have so frequently been exhorted by our leaders. In other words—we must save ; or the Government must ration or tax.

In view of recent experience, it appears unlikely that we will save adequately. With higher import costs and continued price restraints, it seems probable that total profits will rise very little, if at all, during the next 12 months. If they do not increase and provide a source of savings through "ploughing back," there will clearly be few savings from this source. Despite fears to the contrary, there are not many signs that the policy of income restraint has broken down. And if incomes increase less rapidly than prices rise (as they must), individuals will be caught between the millstones of relatively stable incomes and constant or slightly rising prices. If that happens, they will be unable to increase their savings. It follows that the Government must take direct action to restrict personal consumption.

The Government might well decide that the arguments against increased taxation are conclusive. We may disagree with SIR HUBERT HENDERSON that: "Taxation . . . is so high as to involve long-run injurious consequences."(1) Yet we must recognise that the present situation, in which the Government collects in taxes between 35 and 40 per cent. of the national income, presents serious problems. It is apparent that estimates of the "taxable capacity" of an economy in the neighbourhood of 25 per cent. are open to question. Yet the present high rates of both collection and fixed expenditure(2) introduce considerable elements of rigidity into the economy at a time when, for purposes of defence, we want the maximum flexibility.

(1) See *The Economic Digest*, October, 1950, page 442.
(2) See "Seen in Perspective" October, 1950, page 435, where it is estimated that the "fixed element in Government expenditure comprises almost 95 per cent. of the total.

If these arguments were to carry the day the only course open to the Government would be to restrict consumption by direct rationing. Rationing, however, presents its own problems. The aim of any defence programme must be to restrict *total* personal expenditure. If a limited number of goods are rationed, then people are still free to buy others. If food is rationed more severely, some of the reduction in expenditure may become savings—but another part will be spent on football pools and other things. More girl checkers will be required and fewer will be available for the electrical equipment industry, which in one particular case, at least, draws on the same labour market. If the signal-equipment programme is to succeed, "the pools" will have to be restricted. We may find ourselves limited to "two-lines-per-family per week," with football coupons on the back of the 1952 issue of ration books ! This example—which is not so fanciful—indicates the lengths to which rationing would have to go if it were to achieve the aim of bringing about any *over-all* restriction of consumption which would be adequate to meet the present situation. The costs and frustration involved would probably be so great as to make increased taxation a desirable alternative to rationing.

Taxation or Inflation

There is no escaping the fact that the defence programme presents us with the practical alternatives of increased taxation or inflation. Even so, we must be clear regarding the type of tax which is necessary. The new fiscal programme must introduce or increase taxes which will restrict consumption. It is not enough to increase taxes by "£ X million." We must increase the *appropriate* taxes by "£ X million."

In the minds of some people the appropriate taxes are those which force the more fortunate to bear their share of the burden ; or which lead the better-off to draw on their past good fortune during the present emergency. That means a policy of "soaking the rich" or a capital levy. Let us examine the capital levy first.

The essential point about a capital levy, even if it is a Crippsian "Super-super-tax," is that it forces the victim to dispose of his capital to pay the levy. In support of such a proposal, we may argue that it increases social equality, or that it reduces the national debt or increases government ownership of the means of production. We may feel that a capital levy is desirable on these grounds. Such arguments are not relevant to the problem.

Results of Capital Levy

If the Government adopts a policy of stable interest rates, then a capital levy will reduce the national debt, or increase Government ownership of the community's productive resources. The owners of capital will be forced to sell their assets in order to meet the tax. This will tend to lower security prices, and the Government will be obliged to hold the rate of interest by offering to buy securities at a fixed price. Thus with a stable interest policy, the primary effect of a capital levy will be to transfer the ownership of securities from private to public ownership. There will be no significant tax-induced curtailment of consumption, and such a programme will contribute practically nothing to defence finance.

If the Government decides to let the rate of interest move freely, the results will be roughly similar. The fall in the price of existing securities will make it more profitable for those who are able to save on a sufficient

scale (industrial concerns) or who accumulate the small savings of others (insurance companies etc.) to buy these securities rather than invest in new resources. The result will be that the savings of the community will finance the capital levy rather than the investment programme. In this case, the Government will have to use the proceeds of the capital levy to finance the shortfall in the investment programme. Once again there will be no contribution to the defence programme.

It follows that we can rule out a capital levy as a means of financing the defence programme. What hope lies in the next alternative: a policy of "soaking the rich" directly?

"Soaking the Rich"

It must be remembered that any tax will tend to reduce both consumption and savings. In extreme cases the rise in prices and taxes will so reduce the real income of large income-receivers, that their fixed commitments will practically force them to spend more than they receive. In practice, they will be forced to find the balance by selling capital assets. In an economy where wholesale prices have doubled in 10 years, while for the wealthy direct taxes have also greatly increased, many rich people must already be forced to draw on capital.

Any increase in the taxes placed on them therefore becomes a capital levy. Even if a rise in tax led to some curtailment of both saving and consumption, benefit to the defence programme would only result from the "consumption" portion of the impost. Therefore the taxes imposed would have to be greater than the amount of defence finance required. The more taxation is influenced by a "soak the rich" policy, the greater it will have to be. The more widespread is the burden, the less heavy will be the taxgatherer's task.

No Way Out

In any case the burden will be more widespread than is hoped in some quarters. The present high level of income taxes and income re-distribution means that there are very few rich to "soak". For instance, if the Government decided to be really Draconian and reduce the net incomes of the very wealthy by half, it would have to start at a level of annual gross incomes of £4,000 to produce £100 million per annum; at £2,500 to produce £200 million: at £1,500 to produce £300 million; and at £1,000 to produce £500 million, which would probably be the minimum required under such a plan. In any event the present system is such that if it were decided to impose these rates only on the 100,000 "richest" people in the country, and to adjust the taxes on the others so that the relative difference between the different income groups was halved, it would be necessary to reach down to a level of about £625 per annum before the process could be stopped.

From all this it appears that the defence programme has forced us to face the alternatives of a considerable general increase in taxes or inflation. If the Government adheres to its stated policy of avoiding inflation, the consequences in the next budget are obvious.

E.C.A. Condemns Italy's Restrictionism

by ARNALDO CORTESI

Publication of this article caused a diplomatic row. But whether the commentary was a howler or a calculated indiscretion is anybody's guess

OFFICIALS of the Economic Co-operation Administration said today that Italian financial policy had retarded recovery and had obstructed efforts to deal effectively with the unemployment problem. Observers regard unemployment as the fundamental Italian problem. Inadequacy in dealing with it is considered as an indirect advantage to the Communists.

For the first time since the outbreak of World War II the Italian Government's financial operations showed a surplus in the fiscal year that ended June 30 of this year. A strictly budgetary account for 1949-50 showed a deficit of 9,000,000,000 lire (about 14,500,000 dollars), but the Government's holdings of foreign exchange during the year increased by 220,000,000,000 lire (about 355,000,000 dollars).

Although these results are highly satisfactory from a financial viewpoint, they have been obtained as a result of a restrictive economic policy that E.C.A. officials believe has retarded the recovery of the country and has done nothing to improve, if it has not actually aggravated the unemployment situation.

According to the agency's economic experts, it is absurd for the Government to be showing a surplus at a time when private companies are going bankrupt, when unemployment is stationary around 2,000,000 and when mechanical industries are running at only about 60 per cent. of capacity. These experts believe that a larger expenditure of money on the Government's part, while it would have delayed balancing of the budget, would have decreased unemployment and hastened economic recovery, thus laying the foundation for more rapid and more permanent improvement in the future. Officials of the Marshall Plan agency are particularly disheartened by the slow rate at which lire accumulated in the European Recovery Programme counterpart fund are being spent. In the two fiscal years from July 1, 1948, to June 30, 1950, the agency authorized the use of 288,000,000,000 lire (about 464,500,000 dollars) but only 117,000,000,000 lire (about 88,-7000,000 dollars) were withdrawn from the fund and there is reason to believe that the whole of this sum has not been

From The New York Times, October 3, 1950

spent.

During the last fiscal year authorizations amounted to 217,000,000,000 lire (about 350,000,000 dollars) and withdrawals to 90,000,000,000 lire (about 145,000,000 dollars.) This reluctance even to spend money that has been made available by the Marshall Plan is considered false economy by agency experts who maintain that the problem of putting Italian industry on its feet and decreasing unemployment can be solved only by judicious enterprises.

The Government's restrictive economic policy has been prompted chiefly by fear of inflation and of rising prices that would probably have followed. This policy has been so successful to date that up to the end of June prices had shown a constant downward trend and the lira had become one of the most solid currencies in Europe.

Low Production

Since then, however, prices have climbed in Italy as they have everywhere else in the world, with the result that the Government's main purpose has been defeated while the Italian economy has not enjoyed the benefits that would have accrued to it from a more liberal policy of investments.

Marshall Plan officials also are dissatisfied with the very low rate of production in Government-owned mechanical industries. These represent a considerable part of the total Italian industrial productive equipment and are at present running at somewhere between 25 and 50 per cent. of capacity.

The feeling among the experts is that the Government has not done nearly as much as it could have done to revitalize these industries by providing them with the capital they need to improve and modernize their machinery. Indeed, the whole of the the Government's financial policy is thought to discourage investments, and the fact that vast resources of manpower and equipment are being either not used or inefficiently used is attributed directly to this state of affairs.

In the last fiscal year the Government's financial operations showed a surplus of 26,000,000,000 lire (about 42,000,000 dollars) resulting from the difference between the net inflow of 1,608,000,000,000 lire (about 2,593,-000,000 dollars) and a net outflow of 1,582,000,000,000 lire (about 2,551,000,000 dollars).

The strictly budgetary expenditure for the 1949-50 fiscal year was 1,085,000,000,000 lire (about 1,750, 000,000 dollars) as compared to tax revenue of 1,076,000,000,000 lire (about 1,735,000,000 dollars).

In the previous fiscal year the Government's financial operations showed a deficit of 45,000,000,000 lire (about 72,000,000 dollars). The deficit was made good by increasing circulation and borrowing from the Bank of Italy. There was no need in the last fiscal year to have recourse to such directly inflationary measures.

NOTE : Mr Paul Hoffman found it expedient, several days after these criticisms were made, to offer his congratulations to the Italian Government. It is also of interest that the annual report of the Bank for International Settlements (June, 1950), in a careful study of Italy, reaches very different conclusions from those set forth by Mr Cortesi

EDITORS
THE ECONOMIC DIGEST

China's 12 State Concerns

by HENRY R. LIEBERMAN

Communist China has declared in favour of a mixed economy, but has taken steps to ensure dominance of the State in industry and commerce

ALTHOUGH the mixed economy of Mao Tze-tung's "new democracy" reserves wide sectors of activity for private enterprise, the state has come to dominate all major aspects of economic life in China.

Besides laying down fundamental policy, regulating various economic spheres and operating heavy industry, the state has emerged as the nation's number one business man. As business man it is functioning through a mushroom complex of state companies concerned with both domestic and foreign trade.

Under the "common programme" adopted by the coalition groups that set up the Communist-controlled Peiping regime last October, the state was authorized to co-ordinate and regulate all aspects of Chinese economy under the leadership of a state-owned economy.

How They Operate

It was not until the following March that the State Administrative Council issued a regulation paving the way for the establishment of twelve major state companies, six dealing with domestic and six with foreign trade. All these companies are authorized to operate on a national basis through regional branches and sub-branches.

The six domestic trusts include the Central Foodstuffs Company, Central Cotton Yarn and Cloth Company, Central General Merchandise Company, Central Salt Company, Central Coal and Building Materials Company and the Central Native Products Company.

Private Sectors

The six foreign trade companies are the Central Hog Bristles Company, Central Native Products Export Company, Central Fats and Oil Company, Central Import Company, Central Tea Company and Central Mineral Products Company.

Besides these and such former Nationalist enterprises as the China Merchants Steam Navigation Company, there are the New China Department Store Company, with branches throughout the country, and the State Insurance Company, which deals in fire insurance and which is said to have extended its operations to harvest and livestock insurance. Local governments in major cities have been authorized by the Peiping regime to supplement the central companies with their own state-operated retail companies and municipal trusts if necessary.

Private sectors of the economy are

From The New York Times (Hong Kong Correspondent) September 13, 1950

now to a large extent dependent on the operations of such state companies, according to reports from the mainland. These companies handle the bulk of the purchase and distribution of food and other essential goods, place processing orders and collect finished goods from private factories on a contract basis, allocate raw materials and, in conjunction with the Ministry of Trade and local government trade bureaux, fix market prices and determine margins of profit.

In extending its control over foreign trade, the Government has established monopolies for the leading exports and has reserved for itself the handling of major import items.

The State is the number one business man. At home its companies deal in food, cotton, textiles, general merchandise, salt, coal, building materials and native products. Foreign trade is handled by another six State concerns which deal in bristles, native products, fat and oil, tea and minerals. One way and another, private enterprise is now largely dependent on nationalised agencies.

WHO OWNS AUSTRALIA ?

The whole question of "Who owns Australia?" is one which deserves a good deal more objective research than it has hitherto received. It seems probable, however, that today most property is held either by institutions or, as a supplementary source of income by persons who are mainly dependent on current earnings—whether in the form of wages, salaries or profits from un-incorporated businesses.

Apart from institutional holdings, the ownership of shares in joint stock companies and of Government bonds is probably largely confined to salaried workers and the owners of unincorporated businesses. However, of the various forms of property income shown in the 1938-9 White Paper on National Income, company dividends accounted for only £39 million and interest payments for only £42 million, against £73 million in respect of rents (including the rental value of owner-occupied dwellings) Whatever may be the case in respect of the ownership of company shares and govern ment bonds there is no doubt that the wage earner has a substantial share in home ownership. Indeed, the Census shows that about half of the householders in Australia own, or are in process of purchasing, their own homes.

Furthermore, much of the propery held by institutions is in the hands of savings banks, insurance companies, friendly societies, pension or superannuation funds and trade unions. These are all institutions in which the wage earner has a large stake, so that many wage earners who hold no property personally, nevertheless do so collectively through the social institutions of which they are members.

It is not suggested that there are no considerable inequalities in the ownership of property in our present society. But it is urged (*a*) that the idea of an entirely "propertyless proletariat" is a dangerous myth, and (*b*) that property income is comparatively insignificant, being generally supplementary to some other source of income.

***From** Review of Institute of Public Affairs of Victoria, (article by Professor Wifred Prest) Melbourne, August 1950*

The Soviet Financial System

by ALEXANDER BAYKOV and G. R. BARKER

IN the Soviet planned economy the role of the financial system is subordinate to planned economic and cultural development. It is called upon only to assist in the fulfilment of these plans. At the same time, the State Budget and the credit system, so far as they control the economical use of material and financial resources, are so organised as to participate in the prosecution of the collective tasks set by economic plans.

In accordance with this role, the Soviet State Budget and the credit system are not only both more closely connected with the entire economic life of the nation than in other countries, but also actively assist in controlling the fulfilment of the tasks set by the economic plans.

The revenue of the State Budget is derived from two sources, and thus falls into two groups : (*a*) the main sources of revenue are : (1) the turnover tax, and (2) deductions from the profits of enterprises ; in group (*b*) : (1) subscriptions to State loans, and (2) taxes and levies on the population.

The turnover tax, apart from being the main source of revenue, also plays an important role in regulating prices and controlling the financial activities of enterprises. Only in its fiscal aspect can the turnover tax be compared with the British purchase tax. Turnover tax is calculated as a fixed percentage of the wholesale transfer price of producers' goods, or, in the case of most agricultural products, as a fixed monetary rate on the quantity of the product sold by wholesale trade. The rates vary from a nominal rate of 0.5 per cent. to rates of over 80 per cent.

Of revenue derived directly from the public, the most important form is subscription to State Loans. The income from these subscriptions is a prominent item in the revenue of the Soviet State Budget. State Loans absorb the savings of the public into the State Budget and are thence utilised as long-term credit for the development of the national economy. Since, in the Soviet Union, a market for shares and private investments capital does not exist, the mobilisation of the population's savings for long-term credits is organised through subscriptions to State Loans.

Collecting the Cash

These Loans are subscribed either by collective and individual subscription on a deferred payments basis or by the sale of bonds for cash through the savings banks. State Loans are subscribed to by almost every wage and salary earner. In the pre-war period both the number of bond-holders and the total savings invested in State Loans considerably surpassed the number of depositors and the amount of savings accumulated in the Savings Banks, which are the only existing institutions where the current savings of the public may be deposited.

Apart from subscriptions to State Loans, certain Soviet institutions also

 From Bulletin No. 3 (August 1950) on Soviet Economic Development, University of Birmingham

invest their liquid assets reserved for special purposes in State bonds, such as the stable balance of deposits of savings banks, and the reserve capital of State insurance institutions, as well as the reserve capital of some other enterprises and institutions. Thus, by means of subscriptions to State Loans, nearly all the stable savings of the population and stable reserves of institutions are accumulated in the State Budget and thence allocated as grants or long term credits to the national economy.

Soviet Taxes

The Soviet system of taxes on the population also possesses some features different from the taxation-systems of other countries. The rural population pays taxes both in money and in kind—the latter by compulsory deliveries of definite amounts of agricultural products to the State at fixed prices below the market price of these products, which are afterwards sold to the population through the State trade channels at a much higher price, and the difference, in the form of turnover tax, is accumulated in the revenue of the State budget.

Income tax and cultural and housing welfare contributions are not only based on the principle of progression but also vary according to the source of the tax payer's income, whether the tax payer be a worker or an employee, a professional man or a craftsman or artisan member (or non-member) of a co-operative association, or a person having an unearned income.

Income from wages and salaries earned in State and co-operative enterprises and institutions is taxed at privileged rates, whereas income derived from private activity—that of professional men, individual artisans and craftsmen non-members of productive co-operatives, and especially non-earned incomes—is taxed at

Post-war financial developments included the reconstruction of the price system, a return to the pre-war role of the State budget, liquidation of the war economy, and a yearly increase in revenue and expenditure.

a much higher rate. In this way taxation pursues not only fiscal, but also social and political aims.

The functions of the Soviet budget system in the prosecution of the annual national plans for the economic and cultural development of the country are much more important and diverse than those ordinarily performed by the State budgets of other countries.

The two main items of expenditure of Soviet State budgets, which figure far more prominently than in the budgets of other countries, are expenditures on financing the development of the national economy and expenditure on social and cultural measures. A third group consists of the usual expenditures of State budgets in all countries : that is, expenditures on defence and on State administration in the broad sense of the word.

National Development

Expenditure on financing the development of the national economy is centralised and consequently is effected, in the main, through the Union Budget, whereas social and cultural expendidure, in the main, is decentralised.

Expenditures on the development of all heavy and war industries, as well as on large-scale enterprises in the building, light, timber and food industries ; railway, sea and air transport and the building of major highways ; post, telegraph and communications ; internal and foreign trade ; machine and tractor stations ;

State farms ; irrigational work of all-Union significance ; the building up of State reserves and the financing of other branches of the national economy (if their development is considered of all-Union importance) are financed from the Union Budget.

Republican budgets finance the development of industry and other branches of the economy of republican importance ; and local budgets only local industry and trade, agricultural measures of local importance, housing and municipal services, and cognate economy of local significance.

Social and Cultural

The social and cultural expenditure of the Union Budget, on the contrary, covers the educational and health expenditures of only the centrally managed institutions. Budgetary expenditures on similar institutions of Republican significance are controlled by the Republican central administration, whereas local budgets finance the whole mass of educational and health institutions, such as primary and secondary education, *creches* and children's homes, local institutions of social and political education, schools for training qualified workers, local press, theatres, libraries and other cultural institutions as well as the majority of all hospitals, maternity homes and similar health institutions of local importance.

The underlying idea is that social and cultural needs can be served more adequately in a de-centralised manner, and consequently the funds spent on the development of these services must be allocated through the local budgets despite the fact that more than half of this expenditure is provided by allocations from the revenue of the Union and Republican budgets.

The most characteristic features of post-war financial developments were:

(1) The reconstruction of the price system in order to adjust monetary purchasing funds accumulated by the population during the war, and current wage funds, to the available supply of consumers' goods.

(2) A complete return to the pre-war role of the State Budget as the main channel for the redistribution of the national income between consumption and accumulation, with a steady yearly increase in investment in the national economy.

(3) A drive for the liquidation of the consequences of the war economy, which had brought about a deterioration in the economic use of resources in construction and production ; an increase in the cost of construction, a decrease in the velocity of circulating capital, and a general relaxation in economy, because the quantitative tasks of productive plans had been given over considerations of costs.

(4) A yearly increase in the revenue and expenditure of the State Budget up to 1950, in which year revenue was planned slightly below 1949.

(5) Obtaining a surplus on the State Budget every year.

(6) The yearly under-fulfilment of estimates of revenue, owing to under-fulfilment of plans for an increase of the turnover of consumers' goods. This, however, was parallelled each year by an under-fulfilment of estimated expenditure so that in 1945-7 an even greater budgetary surplus was achieved than planned ; and in 1948-9, in spite of the under-fulfilment of estimates, even greater absolute budgetary surpluses were achieved than in the previous three years.

NOTE : Bulletin No. 4 (September, 1950) on Soviet Economic Development, published by Birmingham University, describes international trade during the war and its post-war development, and discusses the function and formation of commodity prices in U.S.S.R.

Rouble As Common Currency?

East European countries are setting up the rouble as a common currency. The idea is to avoid dependence on trade with the west

WHILE the European Payments Union is taking form in western Europe there is some evidence that a comparable system for effecting multilateral and high-level trade may be emerging in the east. This development may be one of the long-term implications of the revaluation and gold-backing of the rouble which the Soviet Government announced on February 28.

Since the war there has been a steady increase in both the volume and the percentage of overall trade among the eastern European countries. At the same time the percentage of trade with the west has been reduced, although not necessarily the volume since the total turnover of these countries is increasing. Czechoslovakia, for example, whose economy had been most closely aligned with the west, had 64 per cent. of its trade with the west in 1948, but its Five-year Plan called for a reduction of this proportion to 54 per cent. by 1953. Recent revisions of the plan, however, indicate that the Czechs will reduce this percentage to 50 by 1951.

As a result of the tendency towards reducing dependence on the west, the existing trade machinery within this group—a network of bilateral agreements—may become inadequate for its expanding trade. Under present conditions, when some of these countries are beginning to accumulate exportable surpluses, such as coal by Poland and pharmaceuticals by Hungary, difficulties might arise if the countries which require coal or medical supplies cannot export what the import plans of Poland or Hungary call for.

The introduction of a mutually acceptable medium of exchange of stable value and ample supply, therefore, could permit a dis-equilibrium in the trade of one country with another without halting the flow of goods, as overall trade could then be balanced and deficits could be covered by credits earned elsewhere.

The four-way trade agreement signed in Moscow in June, 1949, is illustrative of such embryonic multilateral trading. The partners to it were Russia, Poland, Czechoslovakia, and Finland, and exchanges were balanced in roubles. Under this pact prefabricated wooden houses were to be supplied by Finland to Russia and in return Finland was to receive an equivalent value of coal from Poland and sugar from Czechoslovakia, which would be compensated by Russian food and raw material imports.

As the trade agreements between the members of the Council for Mutual Economic Aid are now quoted in rouble values, it follows that rouble credits and debts will accrue in the normal process of exchanging commodities. Thus the rouble with its gold backing could fulfil the basic requirements for a limited inter-

From The Times Review of Industry, London, October, 1950

national currency to be used in such multilateral trade. (Russian production of gold has been estimated at 140 million dollars a year by the Bank for International Settlements, and total reserves may be as much as 5,000 million dollars).

The rate of exchange between the rouble and other currencies as yet means very little in practice (except for foreign expenditure in Russia) and it is improbable that revaluation has affected existing trade between the countries of eastern Europe, since this trade is really balanced barter with commodities valued at world prices translated from dollars into roubles.

Such a rouble trading area would resemble the European Payments Union in so far as the purpose of both would be to facilitate an expansion of multilateral trade among the member countries, but any comparison of the two is difficult since the concept of the former must be largely speculative. Making a superficial comparison on the basis of what is known, however, one can assume that a rouble payments union would have a less complicated system of controls and regulations. The basis for its operation would be a common currency rather than currency transferability or convertibility, and hence there would not be the same need for a clearing house system.

Bilateral trade between the C.M.E.A. countries has been characterized by balanced exchanges, and it is possible that under a multilateral arrangement overall balance would remain an objective of each country because of the limited invisible exports, the lack of income from foreign investments, and (except in Russia) the absence of gold production. The provisions of the E.P.U. for discouraging countries from accumulating surpluses or deficits by the compulsory furnishing of credits or gold payments would therefore probably be unnecessary.

Whereas by their nature the planned-economy countries would be able to do without many of the regulations which are a part of the E.P.U., new complications would be introduced because the individual balance of payments, rather than being ignored would probably have to be planned. Hence a far greater degree of joint planning of production, and particularly of production for export, and of long-term estimates of import needs would be necessary. Consequently, since bilaterial agreements are much easier to co-ordinate with economic planning it can be expected that these agreements will remain the foundation of eastern European trading for some time ; multilateral trade could emerge from it as industrial and agricultural output produced adequate exportable surpluses to make such a scheme feasible.

Flexible Trade

It is conceivable that with improved relations a multilateral trading bloc in the east could permit greater flexibility and volume in its trade with the west. For example, last year Czechoslovakia had a substantial deficit with Britain which could have been covered by sterling payments or reduced imports, neither being desirable from its point of view.

To increase exports was at that time difficult because of British import licensing restrictions in the absence of an agreement. Russia, however, had considerable sterling credits which could have cancelled Czechoslovakia's debt in return for Czech exports to Russia. While there have been numerous examples this year of increased eastern buying in western Europe, the present turn of events foreshadows little scope for an early increase of east-west trade as a result of the establishment of a rouble trading mechanism.

Peasants Want Land

by **Bredo Stabell**

In many parts of the world, especially in Asia, nations have been seeking to achieve a better distribution of land ownership. Leaders in India and Pakistan, for example, are keenly aware of this problem, and are taking steps to deal with it effectively. In Japan, as the result of a land-reform programme, three million farmers—well over half of all the farmers in Japan, have acquired land.

In the Republic of Korea, where previously there had been twice as many tenants as owners of land, a redistribution of farmlands had, by the time of the invasion, changed this ratio so that those who owned land outnumbered those who held their land in tenancy. Plans scheduled for this summer would have made farm owners of 90 per cent. of the farm families. In each of these countries, the result of redistribution of the land has been to give the individual farmer an opportunity to work for himself and to improve his status.

These examples I have cited are not what can be done on a co-operative, democratic basis, by processes of peaceful change, which respect the dignity of the individual and his right to self-reliance and a decent livelihood. The result has not been what has been called land-reform in certain other parts of the world—to collectivise the farmer and to place him under the complete control of the government instead of the land-owner.

Equally important is the problem of better use of the land. Control of soil erosion, better seeds, better tools and better fertilisers are needed in almost every country, but especially in parts of Asia, Africa, the Middle East, and Latin-America, where the people suffer greatly from inefficient use of their land.

The major responsibility in these fields rests, of course, with governments, but the United Nations should make special efforts to advise and assist government in improving land use and productivity. A considerable portion of the funds pledged for the technical assistance programme is already available, to enable us to push ahead with an attack on such problems as these, as well as problems of health, education, industrialisation and public administration.

New Hope for Millions

A vast opportunity awaits us to bring, by such means as the United Nations has been developing, new hope to millions whose most urgent needs are for food, land and human dignity. These efforts, and this experience, if concentrated on areas of particular need, can have a combined impact of imposing proportions.

The place to begin is Korea. Just as Korea has become the symbol of resistance against aggression, so can it become also the vibrant symbol of the renewal of life. A great deal is now being done through the United Nations and under the Unified Command for the relief of the Korean people. This aid needs to be vastly increased.

From Address, U.N. Assembly, Flushing Meadow, September 21, 1950

Background to the 100 Million Dollar Loan to Australia

by PROFESSOR SIR DOUGLAS COPLAND

It is a pledge on the part of Australia to proceed with the rapid development of her resources, and join with those countries who believe in an expanding world

At the Colombo Conference and subsequent discussions Australia committed herself to full participation in any developments that will link the British Commonwealth and the rendering of economic aid to South East Asia. In this respect the economic policy of Australia in regard to the countries contiguous to her has become much more positive in recent months.

But this is not the only direction in which such a change has occurred. The recent visit of the Prime Minister, MR. MENZIES, to the United Kingdom, the United States of America and Canada was concerned in large part with the economic relations between Australia and the United States, and with the pressing need for a greater supply of capital goods to expedite internal development.

As already argued there is an overwhelming case for external assistance to finance the purchase of capital goods. MR. MENZIES' visit coincided with the outbreak of the Korean conflict and the call of the United Nations for military assistance to combat aggression in Korea. Australia's quick response to this call is positive evidence of the increasing sense of responsibility impelling the country towards greater co-operation with other nations in maintaining the prestige of the western world in South-East Asia.

With increased defence activity added to an already high rate of migration and economic development Australia's capital resources will become acute. Consequently the announcement of a dollar loan of one hundred million dollars from the International Bank comes at a most appropriate time.

Purpose of the Loan

The loan is designed to assist in the economic development of Australia and particularly to enable the country to sustain the high rate of population increase. It is not to be confused with the immediate issue of war and peace in the Pacific, though obviously the importation of large quantities of capital goods will improve the capacity of the country to expand and maintain a war effort appropriate to the situation.

There is, of course, some opposition to the overseas borrowing and the new loan will not pass without public criticism. The argument is quite familiar. In borrowing dollars, Australia is again embarking upon a course of action that brought serious difficulty at the end of the twenties, and im-

From The Australian Economy, 1950, Lloyds Bank Review, London, October, 1950

perilled the financial structure when prices fell. Fixed interest bearing loans have the disadvantage of imposing a heavy burden when the national income declines and the balance of payments is adverse.

In the case of a dollar loan the argument is reinforced by the traditional view that dollars are likely to be in short supply in the event of economic adversity being experienced by Australia. Those who hold these views will consider the dollar loan a doubtful experiment, or even a great mistake in policy.

But in the absence of capital imports, Australia will not be able to sustain a rapid rate of population growth or play a strong part in the the South Pacific. With so much attention being given in recent years to the importance of resources as compared with money the loan should be regarded as borrowing, from the United States and elsewhere, capital goods that would otherwise not be available.

There is little question that these goods will step up the rate of internal economic development and enable Australia to play a more effective part in the difficult international situation with which the Western World is faced. It could indeed be argued that both the United States and Australia would be guilty of gross negligence if they did not combine to develop Australian resources as rapidly as possible.

But this does not dispose of the contention that an increase in external debt, and especially of dollar debt, involves risk. What is the magnitude of this risk ? In 1929 external interest payments amounted approximately to 20 per cent. of Australian exports and 5 per cent. of the national income. Today the external interest obligation is 30 per cent. less in money value than in 1929, while both exports and national income have increased

The loan is an important reversal of recent policy. There will be a closer financial nexus with the United States, and this should place Australia in a stronger position to help the British Commonwealth. Internationally, it should ease the strain on the economy by adding to the supply of capital goods required for development and thus speed up the assimilation of migrants.

enormously. Thus the interest burden is only about 3 per cent. of the value of exports and 1 per cent. of the national income.

To avoid a moderate dollar borrowing policy because these percentages might be increased is surely a policy not compatible with either the Australian temperament or the resources of the continent the Australians occupy. Security is not to be attained by the avoidance of all risk ; nor are great achievements in the lives of nations and individuals to be gained without assuming risk. On these grounds the dollar loan is in my opinion long overdue.

It is an important reversal of recent policy, representing as it does a renewal of a traditional policy abandoned in the depression of the nineteen-thirties, and requiring a fundamental orientation of Australian economic relations with the United Kingdom.

There would be no fear that any weakening in these relations would follow, however. On the contrary, a closer financial nexus with the United States will place Australia in a stronger position to help the British Commonwealth to play an effective part in the problems of South-East Asia. Inter-

nally it will ease the strain on the economy by adding to the supply of the capital goods required for development and thus expedite the assimilation of migrants.

It is thus clear, on reflection, that such a change of policy is appropriate to the needs of the moment on both internal and external grounds. It is a pledge on the part of Australia to proceed with development of her resources at a rapid rate, to assume the risks associated with such development and to join with those countries who believe in an expanding world.

AUSTRALIA'S STERLING BALANCES NOT EXCESSIVE

By editorial comment and as a result of expressions of opinion by public men from time to time, the press has given considerable prominence to the size of Australia's reserves of sterling and foreign currencies, which at present stand in excess of £500 million. Often this figure is compared with the pre-war average level of around £60 million and, perhaps naturally enough, it is concluded that the increase which has taken place means that our position is now secure beyond possible doubt. This is a mistaken view.

It needs to be remembered that in the pre-war years we were importing at the rate of only a little over £100 million a year, whereas today goods are flowing in at a rate exceeding £500 million a year ; also the pre-war level of our sterling reserves was uncomfortably low for they were not sufficient even to meet the costs of one year's imports. But today the position is not greatly different for these reserves are still not much above the total value of one year's imports. Because of dollar restrictions imports of some items, particularly cotton and newsprint, are lower than last year, but great increases have taken place in imports of other raw materials such as steel and coal, machinery and in everything associated with motor transport—motor vehicles, petrol and rubber tyres. Imports of tobacco and tea and cocoa are also on the upgrade with the result that the 1949-50 trade year will almost certainly see the elimination of the surplus on account of current transactions.

A most important aspect of the whole balance of payments position is that at present our sterling reserves are being considerably augmented by large transfers of private capital into Australia, associated both with British monetary investment here and with the stream of immigrants entering the country. These cannot be expected to continue on the present scale ; in fact a change in Australia's economic circumstances might put in process an embarassing movement in the opposite direction. The terms of trade which have tended in favour of Australia over the post-war years must now be expected to move against us. A recession in Australia, brought about by a decline in export income following a fall in overseas prices, would probably reduce inflows of capital from investors and immigrants, just as in the early 1930's. Considerable sums of "hot money" would no doubt be repatriated. The last report of the Commonwealth Bank indicated that overseas reserves might easily be reduced by £100 million by the resumption of normal arrangements for the payment for exports and imports.

From Review of Institute of Public Affairs of Victoria, Melbourne, August, 1950

Why Point Four Investment Cannot End Dollar Shortage

by **Professor Austin Robinson**

It is never difficult to invent methods by which the United States might redress the world shortage of dollars. It is much more difficult to be sure that the methods one has invented are at all likely to commend themselves to American opinion and to be of a scale necessary to meet the situation.

Some volume of investment in undeveloped countries is very clearly one of the methods which might be welcome to enlightened American thinking. It is much more difficult to convince oneself that such action would be on the desirable scale. A sensible division of labour between the United States and the rest of the world would probably involve American exports of goods and services close to the present 60 per cent. of the United States gross national product. A balance based on present American importing habits and trends would require a reduction to about 40 per cent.

If the world is to enjoy the division of labour that would go with a high-level balance and the United States is to escape the consequent structural adjustments by receiving no more than the imports of the low-level balance, the volume of lending required is of the order of 4 billion dollars a year. I cannot conceive that the undeveloped countries of the world are in a position to digest continuous investment at that rate or to divert resources to perform the very large element of local construction involved.

Apart from all else the political problems of control and ownership are far from easy to settle. This may be one important ingredient in a solution. I cannot believe that it can be the major element.

From the Economic Journal, London, September, 1950

DOUBLY DAMNED

One American representative at the Unofficial Sixteen-Nation Conference in Lucknow, Robert North of Stanford University, after hearing the Asian speakers, mostly Indians and Pakistanis, arraign United States policies and impugn the motives of the United States, made a statement that came to be called in conference circles "North's dilemma," A summary of his points follows :

"If the West gives aid it will be feared for its imperialism ; if it withholds aid it will be denounced for its indifference ; if it establishes garrisons it will be attacked as expansionist ; if it keeps its troops at home it assures success of aggression in Asia ; if it expresses no political preferences it will be accused of siding with reaction and the status quo : if it supports progressive forces it will be condemned for intervention. In other words, we are damned if we do and damned if we don't."

From The New York Times, October 18, 1950

The Dollar Crisis Recedes

This article, and that by Mr. Manning Dacey which follows it, are concerned with different aspects of the same problem. We are on the way—but we have not yet arrived

A year ago sterling was devalued. For a time thereafter it was widely thought that devaluation would give a six months' respite in which the gold and dollar reserves would increase, but that the degree of retrenchment in this country was neither sufficient in itself nor sufficient as an example to the rest of the sterling area.

It was also thought that not later than about mid-1950 the rise in the cost of living and inflationary tendencies would make it impossible to restrain wages, that much of the immediate benefit of devaluation would be lost, and that the second half of 1950 would see a recurrence of dollar difficulties, though few would have cared to guess how serious those difficulties would be.

It may be too early to say whether that view was wrong absolutely or only in its timing. But certainly none of the foreboding has proved justified during the first year. On the contrary, the improvement in the sterling area's dollar balance has gone from strength to strength.

A net deficit of 632 million dollars in the second quarter of 1949 has been transformed into a net surplus of 180 million dollars in the second quarter of 1950, the most recent period for which figures are available. The rise in the cost of living in this country, measured by the official index of retail prices, has been minute in comparison with expectations, and so far, whatever may be the future repercussions of the recent T.U.C. vote at Brighton, restraint of wages has held remarkably well. Since wages have tended to increase in the dollar area meanwhile, the full benefits of devaluation have held, though admittedly wages have increased in some other parts of the sterling area rather more liberally than in this country.

Reduction of Imports

Whether or not retrenchment in this country provided an adequate example the fact is that the sterling area countries have by one means or another cut dollar imports heavily. The reduction has not been limited to the cut of one-quarter agreed upon at the sterling area countries' conference in the summer of 1949. With the deterrent effects of higher dollar prices since devaluation superimposed on the administrative cuts ordered, the reduction in the sterling area's dollar imports during the three quarters following the devaluation has been not one-quarter but about one-third.

Meanwhile, a strong recovery of business in the United States during 1950, coupled with the placing of orders postponed before devaluation and more recently the heavy buying of sterling area commodities as a result of the Korean war, has come to the rescue of the sterling area's dollar exports. The real growth in the value of these exports—since much of the rise of prices occurred only in the summer of

From The Times, special survey of a year of devaluation, September 18, 1950

this year—is not precisely measurable by the most recent figures available.

There is a big time lag in any case in the transformation of such a market boom into values recorded in trade returns. But the effect on exchange remittances is felt more or less immediately. American users of raw materials, to an even greater extent than users in other countries, have during the past year been going through the successive stages of rebuilding subnormal inventories, then stocking up further to cope with increased turnover, and then to some extent trying to build up stocks to a supra-normal level, in which process they have been accompanied by the United States Government in the execution of its stockpiling programme.

One important distinction must be made and emphasized at the outset. The gold and dollar balance and the gold and dollar reserves are the affair of the sterling area. Their recovery has not necessarily much to do with this country itself. The sterling area as such has achieved an enormous improvement with the gold and dollar area.

Overall Position

But this has not been matched by any comparable improvement in this country's own balance of payments with the world at large including the rest of the sterling area. Indeed there is no sign that this country's own balance of payments has improved significantly at all. There are thus two separate things to consider—the sterling area's balance with the gold and dollar area, and the United Kingdom's balance with the rest of the world. Since devaluation was designed specifically to cope with dollar difficulties it is appropriate to consider the sterling area's balance first.

The sterling area's balance, which ran at the rate of 330 million dollars for the first quarter of 1949 (an approximately normal rate by the standard of 1948) rose abruptly to a rate of over 600 million dollars a quarter in the half-year or so preceding devaluation. In the first complete quarter after devaluation this deficit was just about wiped out, and by the second quarter of 1950 there was a surplus of 180 million dollars.

Before the middle of this year, the sterling area probably achieved a balance with the dollar area even without the aid of semi-speculative capital movements. Moreover, that balance was achieved substantially without the help of the big rise in raw material prices that followed the political disturbances in the East.

It is likely that the third quarter will still show a fair surplus—at any rate there is no doubt that the gold reserves have gone on increasing. This turnabout represents a net favourable change of something like 800 million dollars a quarter. Even if the last nine months before devaluation are compared with the first nine months devaluation there is still an average improvement of about 600 million dollars a quarter, or 200 million dollars a month.

It is by no means easy to account in full for this improvement. In figures for visible trade covering the period up to June 30 last the improvement seems to have been almost entirely due to reduction of the sterling area's dollar imports. The sterling area's dollar imports in the nine months following devaluation were 84 million dollars a month less than in the nine months preceding devaluation. This represents a reduction of 31 per cent., and since the cuts in dollar imports were developed steadily over the whole nine months, in the later stages the cut was

equivalent to considerably more than one-third.

It will be recalled that at the Commonwealth Finance Ministers conference last July the extent of the cut generally agreed upon was only 25 per cent. But the effects of devaluation, which increased the prices of dollar goods to sterling buyers by 42 per cent. were superimposed on the administrative reduction imposed by official import restrictions. It is clear, therefore, that devaluation effectively exercized its traditional effect of reducing import demands. But since there may be buyers who have not hitherto obtained import permits who would still want to purchase dollar goods, it is still possible that a portion of the reduction may prove temporary; whether it proves so or not may well depend most of all on the availability of the goods concerned from United Kingdom sources.

Sterling Exports

The sterling area countries' exports to the dollar area increased by only a small amount so far as the published trade returns are concerned—by 12 million dollars a month, or rather under 9 per cent. But, though this increase reflected to a fairly full extent the recovery in the volume of United States imports, owing to time-lags it does not really reflect at all the big rise in the prices of rubber, tin, wool, and other materials since the early summer. It is quite probable that since then the value of Malaya's dollar exports may have been doubled, which would mean an additional 20 million dollars a month or so of dollar exports.

Still, during the actual period that the sterling area's gold and dollar balance improved by more than 200 million dollars a month, as measured by exchange movements actually experienced, it is difficult to account for an improvement of more than about 100 million dollars from visible trade figures alone. There will inevitably have been an appreciable improvement in invisible items, particularly since in dollar terms the value of the investment income accruing to American investors from sterling sources would have been cut by devaluation while the dollar income accruing to sterling investors would remain the same.

Gold Balances

It must also be remembered that the gold and dollar balance included gold balances with Switzerland, Belgium, and others, and that gold losses in these directions have ceased. It is hard to imagine, however, that changes under these two headings could account for more than half of the remaining unexplained gap. And this would leave at least one-quarter of the total improvement 50 million dollars a month, or 150 million dollars a quarter—as the amount probably covered by semi-speculative movements of funds across the exchanges, including accelerations and postponements of payments.

None the less, it is almost certain that the sterling area before the middle of this year had achieved a balance with the dollar area even without the aid of semi-speculative and capital movements of this kind. Moreover, that balance was achieved substantially without the help of the big rise in certain sterling area raw material prices which followed the darkening of the political clouds in the East. That balance seems, therefore, for the time being to be secure.

This is, however, subject to the proviso that imports from dollar sources into the sterling area do not start increasing appreciably again. And this is a rather big proviso. Dollar prices are now often much higher than the prices of corresponding

United Kindgom goods. But for the moment American delivery dates over large ranges of goods are still better than United Kingdom delivery dates, and sterling area residents will, therefore, often be prepared to pay the higher prices to get quicker delivery.

This country's balance has not improved since devaluation in the same way as has the sterling area's balance with the gold and dollar area. On the contrary there has been a quite sharp deterioration in this country's visible deficit in sterling (though not in terms of gold, or sterling at its old value). Invisible items have probably improved considerably, so that there may not have been any deterioration over all, though some careful independent investigators think that there probably has been.

What seems to have happened, from this country's point of view, is simply that the direction of its respective surplus and deficit (as far as exchange payments are concerned) has changed. Before devaluation the United Kingdom was running a substantial deficit with the gold and dollar area and a substantial surplus with the sterling area and some other countries. Since devaluation she has run a large deficit with the sterling area and a large surplus with the gold and dollar countries.

Terms of Trade

The failure to improve the external balance of payments has been due primarily to the big adverse change in terms of trade caused partly by devaluation and partly by the general rise in primary commodity prices ; the quantity of exports to pay for a given quantity of imports was 1.14 times as much in July as it was just before devaluation, and at the moment the ratio must be more unfavourable still.

The problem in this country's oversea economic relations is now to achieve a general surplus, and more particularly—though this is substantially the same thing—to achieve a surplus with the sterling area ; that is to say, this country must earn from the sterling area enough to pay for her imports therefrom and for the dollars which she needs to buy from them and further must find an extra surplus of £150 million a year or more to cover essential investment in the sterling area.

Other Sources

This is a huge task, particularly as high primary commodity prices are heavily increasing the sterling area's earnings both of dollars and of sterling. The concrete task is to find enough goods to supply the sterling area's demands, and its difficulty will be much aggravated now by the increased claims of armament orders.

But the relative burden is eased in one respect. If supplies may get shorter, delivery dates longer, and wages and production costs higher in this country, the United States will be suffering the same tendencies or worse. Though the intensity of German and Japanese competition is growing, that of American competition tends to diminish.

The inflationary pressure which a year ago chiefly concerned the sterling area is now gripping the United States. The difficulty now is one that the big industrialized countries share. They have to find exports to cover inflated costs of imported raw materials at the same time as covering high standards of consumption, social services, home investment, armament expenditure, and (in proportion to their recent economic strength) oversea aid and investment.

In this phase, more especially since the United States is committed to large oversea engagements, direct dollar difficulties disappear ; problems

such as the shortage and possible allocation of raw materials take their place. The dollar problem cannot be forgotten. But at this stage it can only be said that, since the United States and Canada represent a formidable concentration of economic strength a dollar problem may recur if and when the present phase, which might well be long, comes to an end.

Britain's Gold and Dollar Reserves

The position of sterling area gold and dollar reserves from the beginning of 1949 to the end of the third quarter of 1950 has been-:

	Net deficit or surplus	Canadian credit	Purchases from I.M.F.	E.R.P.	Reserves at end of period
1949		Million Dollars			
1st qtr.	-330	30	32	324	1,912
2nd qtr.	-632	30	-	341	1,651
4th qtr.	-31	27	20	247	1,688
1950					
1st qtr.	+40	27	-	229	1,984
2nd qtr.	+180	18	-	240	2,422
3rd qtr.	+187	-	-	147	2,756

Rt. Hon. Hugh Gaitskell, (former) Minister for Economic Affairs, October 3, 1950

ECONOMIC RESEARCH COUNCIL DISCUSSIONS

Non-members will be welcome at any of the following meetings, if they will notify the Secretary, 18 South Street, London, W.1. (Grosvenor 4581): Wednesday, November 1—Mr. Anthony Crosland M.P., Trinity College, Oxford on "Wages and Prices from a Labour M.P.'s point of view." ; Wednesday, December 6—Dr. Ffrangcon Roberts, Cambridge, on "The Health Services' Limitless Commitments". Both meetings begin at 8 o'clock and will be in the Angus Room, 55 Park Lane, London, W.1., and each address is followed by questions and discussion. Mr. Ian Mactaggart will preside.

Dollar Problem Not Solved

by W. MANNING DACEY

Great progress has been made in solving the post-war problem of the dollar gap, but the bridge does not look like a permanent structure

Can we safely wave the dollar problem farewell? It is clear that the remarkable shrinkage in the dollar gap during recent months has been brought about chiefly by two factors: emergency purchases of primary commodities by the United States, and a drastic restriction of purchases of American goods and services by the outside world. Up to the first quarter of 1950, at any rate, the sharp reduction in the United States favourable balance on current account owed nothing to any expansion on balance in United States imports. Yet such an expansion is indispensable to any lasting solution of the dollar problem.

The magnitude of the adjustments that would be needed to procure balance through changes in the current items alone in the balance of payments is strikingly illustrated by a projection drawn up by E.C.A.—before Korea—of a possible pattern of world trade and payments in 1953. If the projection were to be realized, Europe's total imports in 1953 will be roughly the same as in 1949/50, but dollar imports will have been cut by a third and replaced from other sources. In order to pay for even this reduced volume of dollar imports, Western Europe will have to increase its exports to the United States by no less than 71 per cent. above the 1949/50 level, thus securing something like one-third of the additional American market which the projection postulates, although the Western European countries have hitherto supplied only about one-seventh of United States total imports.

To the Western Hemisphere as a whole European exports will have to increase by 65 per cent., incidentally displacing United States exports to an appreciable extent in the Canadian and Latin-American markets. Similarly extensive adjustments are called for in purchases and sales of services. Western Europe will also have to earn 600 million dollars from its dependencies and other areas, a figure which assumes—contrary to the United Kingdom memorandum to O.E.E.C. that "other participating countries," in the Marshall Plan phraseology, will achieve some net earnings of dollars from the sterling area.

Meanwhile, the United States will be expected to step up her imports as a whole by more than 25 per cent., while watching her total exports dwindle by some 15 per cent. If those figures seem comparatively small they give a misleading impression of what is in fact implied. By far the greater part of the additional imports would be drawn from highly industrialized countries, which means that imports of finished manufactures would perhaps have to be almost doubled.

From Western Europe alone, as has

been noted, the United States is expected to increase her purchases by 70 per cent. And that expansion will have to take place even though the products of those same countries are to an appreciable extent ousting American goods from neutral markets and even though these same countries are themselves continuing to discriminate against American imports in their own trade.(1)

Cautionary Note

Should we really be safe in counting on such an expansion ? It is true that since 1946 United States imports have risen more rapidly than the American national income, but that is at least partly because so many war-shattered countries were simply unable to ship goods to the American market in the early post-war years. By 1948 these physical limitations of supply had been overcome, yet America's purchases from abroad were still considerably lower, in relation to her national income, than before the War ; by comparison with the 1937 ratio of imports to income, indeed, the outside world had actually lost nearly two and a half billion dollars of American custom.

But we must clearly ask how far that was due to inflationary policies in the exporting countries which had rendered all the price relationships wrong. Now that the devaluations are out of the way it can be argued that the liberal policies of the Administration, as evidenced by the successive reductions in tariffs and such measures as the Customs Simplification Bill, may possibly have opened an entirely new chapter in American commercial policy. One can only say that as yet the facts do not justify a pronouncement either way.

It would in any case surely be carrying complacency to extremes to suppose that a sweeping increase in American imports accompanied by a substantial fall in American exports can take place, even against a background of general prosperity, without encountering and without setting up severe political tensions.

If the dollar problem in fact had its roots, as MRS. CROOME has suggested, simply in a "dynamic disequilibrium" arising out of America's ever-increasing industrial pre-eminence, then American protectionism would be paradoxical indeed. But is there any such paradox ? Over a certain range of mass-production industries, America is, of course supremely efficient, and that incomparable level of efficiency fully justifies the fabulously high earnings of American labour in those industries. But correspondingly high wages are by no means justified when American labour is employed in other uses, as any traveller to the United States can testify.

America's Problem

In other words, the law of comparative costs, if it explains nothing else, does at least explain the driving force behind American protectionism. In the mass-production industries the high cost of American labour in general is easily out-weighed by its extremely high productivity ; in other employments, where America's comparative advantage is less, those high labour costs do indeed render her an extremely inefficient (high-cost) producer, just as the law of comparative costs envisages. There must be innumerable cases, where the direct-labour content of the product is high and transport costs reasonably low, in which the American product could not compete on equal terms with imported

(1) In the entire adjustment to the elimination of 3,950 million dollars of Marshall Aid, incidentally, the contribution expected from capital movements was the magnificent sum of 180 million dollars, through an increase in the net outflow of dollar capital from 220 million dollars to 400 million dollars. This is after allowing for International Bank loans, Export-Import Bank loans, for continued aid to Greece and for private investment, though on the explicit assumption that Point Four, or any other new programmes or policies, will give no great fillip to American investment abroad. The gross outflow is assumed to be about the same as in the base period, i.e., less than a billion dollars.

goods. Exclusion of cheaper labour through a rigorous immigration policy, and of the products of such labour by high tariffs and all the other devices of protectionism, helps to perpetuate the artificial "scarcity value" of American labour in such employments, to the detriment, of course, of the American consumer.

If it could be made certain that any restriction of imports not necessitated by balance of payments difficulties would be translated, through an appreciation of the currency, into a corresponding restriction of exports which would neutralize the original stimulus to employment, then we should be well on the way towards sanity in these matters. There is certainly no reason to suppose that the U.S. Administration, which since the war has been in the forefront of the movement to create a sensible international economic *régime*, would dissent from that objective.

Potential Opposition

For the American trader, however, the effects of a dearer dollar clearly cannot be palatable. The trouble is that E.C.A. hitherto has been seeking a short-run solution of the dollar problem by what are essentially long-run processes: the unification of the European market and a sweeping shift in the American balance of trade. In the long run, both developments may be inevitable; to force the pace may in each case only do harm. If foreign goods begin to make really painful inroads on particular American markets, if particular American exports seriously begin to feel the pinch, then the opposition to liberal trading policies on the part of the affected groups will become intense. And if they should successfully resist the proposed encroachments on their markets then, even if all the favourable background assumptions are fulfilled, the whole structure comes toppling down.

American capital exports cannot permanently wear the guise of Santa Claus: sooner or later we have got to get rid of the red cloak and whiskers. But the difficulties are formidable. We cannot suppose that a sweeping increase in American imports accompanied by a substantial fall in American exports will take place without encountering severe political tensions.

This being so, the approach adopted in the O.E.E.C. report, of stressing the potential importance of investment as a means of increasing the flow of dollars, is surely to be preferred to that implicit in the E.C.A. projection, which, by taking an optimistic view of the possibilities of adjustment through the current items alone, indicates a defeatist view of the possibilities of promoting overseas investment.

To sum up the argument thus far, it is suggested that the dollar problem has probably been temporarily submerged rather than definitely solved, that it would be precarious to rely exclusively upon shifts in the direction of trade to produce a satisfactory long-run equilibrium, that overseas lending would greatly facilitate any adjustment that may be needed and is of vital importance for its own sake if the world is to progress and the world market to be expanded. It goes without saying, too, that American capital exports cannot permanently wear the guise of Santa Claus: sooner or later we have to get rid of the red cloak and whiskers. To say all this is in no way to minimise the obstacles in the way of a worth-while flow of American private investment. The difficulties are indeed formidable. But what is at stake fully justifies a determined attempt to overcome them.

Draft Plan for U.S. Aid to Europe

by Gordon Gray

Rearmament makes sterling convertibility more difficult to achieve. Nevertheless, the greatest problems are to be found in Europe, where there is "low national morale"

THE report of Mr. Gordon Gray to President Truman on the general problem of the world dollar gap, of which a brief summary was given in the last issue of *The Economic Digest* is sufficiently important to require more detailed review.

Insisting that the goal of sterling convertibility must still be pushed vigorously, the report admits that present conditions arising from the need for rearmament make it substantially more difficult to achieve. As distinct from the rest of the sterling area, which stands to benefit from higher prices of rubber, tin, wool and other raw materials, the U.K. situation will be less favourable.

The report concludes that U.K. terms of trade will deteriorate ; a rise in short-term sterling balances will more than offset gains in its dollar reserves ; its military production increase will reduce output for consumption at home, cut its exports and hurt its payments position. Nevertheless, progress toward convertibility should be encouraged, and the United States should stand ready, at a later date, to help effect convertibility when the time is ripe.

That time, however, will not be ripe until Britain first immobilises a certain proportion of the sterling balances, and second, attains the ability to complete in free world markets. When that is accomplished, and the barrier to convertibility is only the lack of sufficient dollar and gold reserves, the United States should aid by granting a stabilisation credit to Britain, and by giving financial immobilised sterling balances.

The draft report sharply contrasts the "great national effort" and high morale in the United Kindgom with the "low national morale" on the Continent. It finds the greatest economic problems of rearmament in France, Italy and Westerm Germany. In the first-named country, the report sees "economic sluggishness" and concealed unemployment.

Besides the obvious unemployment problem in Germany, the report is concerned with the loss of its Eastern market. And coupled with unemployment in Italy are the problems of foreign exchange and of development of resources.

All three countries, with divided governments, face problems of "social and political cohesion." They stand in need of internal readjustments which U.S. monetary aid alone cannot effect.

Summary from The Financial Times, September 25, 1950

In Western Europe as a whole, the report declares bluntly, though economic potential is high, realisation of that potential is seriously limited by lack of initiative and by the unwillingness of European businessmen to face competition.

The report inveighs against what it regards as managerial incompetence and technical backwardness protected by restrictive trade practices such as price fixing and market sharing. It finds governmental efforts to expand intra-European trade stymied by pervasive cartel-mindedness.

The report lists three guiding principles for American economic policy toward Europe:

(1) The necessary military build-up must be conducted so as to impair as little as possible the necessary growth in European exports.

(2) Military items beyond the capacity of Europe to produce internally must be supplied through the Mutual Defence Assistance Programme.

(3) American economic assistance must be kept separate from military aid, and should be used to encourage the full use of resources and the achievement of integration.

Economic aid should funnel through the European Payments Union, and E.P.U. should also be the device used to effect the exchange of European-produced armaments among North Atlantic Treaty countries. That is, any deficits in inter-European transfers of armaments should be met by the furnishing of that amount of dollars from the appropriated funds to the E.P.U.

Some of the other regional analyses may be summarised as follows:—

U.K. terms of trade will deteriorate; a rise in sterling balances will offset gains in dollar reserves; military production will hinder exports. Convertibility will be unattainable until Britain can immobilise a portion of the sterling balances and compete in free world markets. When that is accomplished the U.S. should help by granting a stabilisation credit to Britain.

Canada–Canada's trade deficit with the United States has been met in the past in part by its earning of Marshall Plan dollars. The United States should continue to the maximum its "offshore" purchases in Canada for European aid and domestic rearmament. Canada's long-term dollar position should improve through higher prices for and increased production of petroleum, iron ore, other raw materials and finished manufactures.

Latin America—Its situation is likely to continue to improve. In fact, it will probably become the single most attractive magnet for U.S. capital. It stands in a better position than ever before to attain prosperity.

Japan—Japan's production has so risen since the war that it should be independent of American dollar aid after 1951. Its chief problem is, of course, the finding of markets for its produce, but recent developments now promise a solution in the form of outlets in South and South-east Asia, Latin America and, temporarily, Korea.

Africa—As in Asia, the problem is one of food for a growing population. The U.S. can play only a limited role here, since investment must rest with the European nations.

Middle East—The report paints a singularly gloomy picture. Only limited steps in developmental programmes are possible, but even these are essential to reduce the area's vulnerability to Soviet political in-

filtration. Iraq and Iran stand to gain through increased oil prices resulting from the Atlantic Community's military expansion, and Egypt from higher cotton prices. But the whole area is liable to be hurt by the rising costs of its imports.

South and South-East Asia—Here the Communist threat is immediate, and the peasant is the target. Food production has decreased ; the new Governments are in a real sense on trial, to be judged by their ability to solve the agricultural problem. Indonesia and Malaya should benefit in a spectacular way from the Western rearmament programme. Thailand, with rice and rubber, and Ceylon, with tea, should share in the gains.

Burma's rice production, one-third of pre-war levels, is showing some improvement. No improvement in Indo-China can be expected until there is a marked change for the better in its internal political and military situation. The report paints a dark picture for India, for which the defence programmes of the West offer no economic improvement.

The report indicates that, whereas the developmental programmes it proposes for the rest of South and South-east Asia can be undertaken almost entirely through loans, aid to India must be largely in the form of outright grants.

MILLIONS OF MOTORS

There were in the world in 1949 some 6½ million motor vehicles, an increase of some 7.1 per cent. over 1948. Of these, about 75 per cent. were cars, 24 per cent. trucks, and 1 per cent. buses. About 75.6 per cent. were in the Americas (the United States alone accounting for some 70 per cent.); 18.7 in Europe; 2.5 per cent. in Oceania 1.8 per cent. in Africa, and 1.4 per cent. in Asia (that is if one counts all the 3 million vehicles estimated to be in the U.S.S.R. among European cars).

These vehicles burn some 43,000 million gallons of fuel per year and cover, at a very broad estimate, well over 500,000 million miles. The dynamics of this new means of transport are interesting. In the United States, in spite of war years, between 1940 and 1947, the number of passenger cars increased by 9 per cent., of buses by 45 per cent. and of trucks by 57 per cent. Last year, U.S.A. excluded, the number of trucks increased by 7.2 per cent. and the number of passenger cars increased by 12.2 per cent., which is the more remarkable as there are over three times as many passenger cars as trucks. The number of coaches increased by an enormous proportion, 42.2 per cent.

The annual production of motor vehicles increased from 3.5 million in 1938, to 7.5 million in 1949, U.S.S.R. excluded. In Europe, production of trucks in 1949 was double that in 1938 ; while in the United States production increased from 2 million to over 5 million for passenger cars, and from 488,000 to 1,129,000 for commercial vehicles. In the first quarter of 1950. the average monthly production of passenger cars in the main producing countries increased from 492.54 thousand to 533.52 thousand, and that of commercial vehicles from 126.25 thousand to 133.06 thousand.

From address by M. H. Perlowski to International Road Federation, London, September 27, 1950

Explaining GATT

The facts and background concerning the general agreement on tariffs and trade, set forth for the Torquay conference now in session

THE General Agreement on Tariffs and Trade (GATT) is an international trade agreement. The world-wide depression of the nineteen-thirties was accompanied and followed by the intensification of all forms of trade restriction: high tariff protection, import and export quotas, exchange controls, clearing agreements and barter deals.

It became evident during the Second World War that these restrictions might become permanently fastened upon the world unless a resolute attempt was made to restore to Europe and to the world a one-market economy and to re-establish as soon as possible the pre-depression pattern of multilateral trading between nations.

The General Agreement is one of the results of the efforts which have been made and are being made in this direction. The starting point of the story is in the Atlantic Charter and in the Lend-Lease Agreements in which the war-time allies bound themselves to seek together a world trading system based on non-discrimination and aimed at higher standards of living to be achieved through fair, full and free exchanges of goods and services.

In pursuit of this aim, even before the end of the war the United States, the United Kingdom and other important trading countries among the United Nations discussed the setting up of international organizations to tackle the post-war problems of currency, investment and trade. The Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development were prepared before the end of the war. But the Charter for the International Trade Organization—for various reasons, including its wide range and its complexity—was not completed until March 1948.

While the Charter for the ITO was being worked out, the Preparatory Committee, which had been appointed by the Economic and Social Council of the United Nations to draft the Charter, agreed to sponsor negotiations aimed at lowering tariffs and reducing other trade restrictions among its own members without waiting for the Trade Organization itself to come into being.

Practical Steps

This was encouraging evidence of the seriousness of purpose of the countries engaged in drafting the ITO Charter and an important step towards carrying out one of its main purposes. Thus the first tariff negotiations were held at Geneva in 1947, side by side with the labours of the Committee which was preparing the ITO Charter. The tariff concessions resulting from these negotiations were embodied in the multilateral trade agreement which is called the General Agreement on

From handbook issued by the Conference Secretariat, Geneva, September, 1950

Tariffs and Trade or GATT. It was signed on October 30, 1947, at Geneva.

The General Agreement contains not only the Schedules or lists of the tariff concessions. There are also valuable provisions to protect these concessions: that is, for preventing them from being nullified by other methods of protection. These inevitably involved the formulation of rules regulating the use by parties to the Agreement of quantitative import and export restrictions (forbidden except in closely defined circumstances), internal taxes, customs administration and so on, as well as arrangements for consultation and for joint discussion and settlement of differences arising out of the administration of the Agreement.

While the Agreement is thus not a Charter nor the Contracting Parties an organization, the obligations accepted by the parties to the Agreement provide an agreed set of rules governing the commercial relations of the countries; and the periodical meetings of their representatives at the Sessions of the Contracting Parties provide a forum for the discussion and settlement of complaints and other problems in the commercial field.

How to Control Inflation

by M. S. Szymczac

Some people look upon direct controls as a practically painless way of meeting the emergency financial problem. No more serious error could be made. There is no painless way of controlling inflationary pressures. Either we meet them head on and overcome them or we wage a losing rearguard action against them. If the fuel of inflation is provided, all that direct controls can do is to drive the inflationary pressures underground and to postpone some of their effect.

Therefore, even if direct controls eventually become necessary, broad, basic monetary and fiscal measures will be essential to make them effective. Price and wage fixing and rationing are much more difficult to administer in a protracted period of partial mobilisation than they are in a limited period of all-out war effort. Civilian goods will continue to be available in large amounts, but the total demand for such goods will far exceed their supply. The job that direct controls can do, which is to cushion the pressure of military demands on supplies of goods and services and distribute available civilian goods at equitable, administered prices, can only be accomplished if some of the civilian demand is drained off by higher taxation and if new private credit creation is prevented.

It is my belief that the proper method of dealing with our immediate inflationary situation is to adopt a coordinated programme of monetary policy, fiscal and debt management policies, and a system of selective priorities and allocations of strategic materials. The cornerstone of our anti-inflation programme must be bold fiscal measures including across-

From Federal Reserve Bulletin, Washington, September, 1950

the-board increases in personal and corporate income tax rates, selective excise taxes, and taxes on war profits and speculation.

Financing the expanded military budget cannot be limited to the taxation of wealthy individuals and business enterprises if it is to be useful as an effective anti-inflationary measure. It must restrict spending, and most spending is done by the vast number of individuals and families with low and middle bracket incomes. In an emergency situation like the present, our tax changes must be designed primarily to meet the danger of inflation.

In addition to higher taxes, the Government should make every attempt in its debt management policies to tap as large a volume of available private investment funds as possible. Concerted efforts should be made to sell non-marketable bonds and tax-savings notes to individuals, businesses, and non-bank financial institutions, thus absorbing money that would otherwise be spent on current consumption or on new private investment. Such a programme would not only absorb redundant funds but would also make it possible to reduce the volume of Government financing through banks, which is highly inflationary.

Monetary and credit controls to deal with our immediate inflationary situation can and should be broad in scope, restrictive in character, and vigorously administered. They involve, for one thing, the application of effective curbs on consumer and real estate credit. There is no doubt that the recent large increases in consumer and mortgage credit have added fuel to the inflationary fires.

Since the end of 1945, consumer credit has been increasing by about 3,000 million dollars a year. The increase in May and June of this year was about 1,000 million dollars, the largest on record for those two months.

In this article Mr. Szymczak examines the menace of inflation resulting from defence budgets in the U.S.A. But the conditions which he describes, and the arguments deduced, can be applied to many other countries.

Home mortgages made by all lenders in the first half of 1950 exceeded 6,500 million dollars. By the end of June total home mortgage debt outstanding exceeded 40,000 million dollars, a new peak and more than double the volume outstanding at the end of the war.

In addition to effective consumer and real-estate credit regulations, general measures to curb the availability of credit to other types of borrowers are called for. On August 4 a joint statement was made by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Home Loan Bank Board, and the National Association of Supervisors of State Banks urging that banks and all other institutions engaged in extending credit should exercise special care in their lending and investment activities.

Somewhat earlier the American Bankers' Association had issued a similar statement, and more recently President Peterson of that Association has further urged bankers to co-operate in restricting non-essential credit.

On August 18, the Federal Reserve System took further restraining action in the area of monetary and credit policy. The Board of Governors then approved an increase in the discount rate of the Federal Reserve Bank of New York from 1½ to 1¾

per cent., and within a few days approved a similar increase at other Reserve Banks. Also, on August 18, the Board and the System's Open Market Committee issued a joint statement indicating that both bodies were prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market. On the same day, the Treasury announced that it had temporarily increased the volume of Series "F" and "G" savings bonds available to non-bank financial institutions.

Curbing Speculation

It is to be hoped that all these efforts may prove effective in curbing loans to businesses and individuals which might be used for speculation or other purposes that would have adverse effects on our defence effort. It they are not, monetary policy will need to resort to even more restrictive use of one or more of the general instruments of credit control at its disposal, namely, open market operations, changes in the discount rate and changes in bank reserve requirements. In case these measures prove inadequate, the Congress might need to consider the desirability of authorising additional powers over bank credit expansion in some form of supplementary reserve requirements. Such powers might include a secondary or special reserve requirement similar to that the Federal Reserve requested in 1947, or some ceiling or dual reserve plan.

The Major Weapon

Monetary and credit measures, taken together with appropriate fiscal measures, are invaluable weapons in our economic and financial arsenal for use in the battle to maintain economic stability within the framework of a free enterprise system. This is true not only over the long run when we look forward to normal peace time activity again, but also in the short run when military and inflationary pressures seem almost overwhelming.

Fiscal measures, particularly higher taxes, must be our main line of defence, but monetary and credit action is also necessary to restrict private credit expansion and, moreover, can be applied more promptly to hold the line until fiscal measures take effect. Financial instruments therefore must be among our major weapons against economic instability as long as we value our freedom.

Implications of Freeing Canadian Dollar

OUR generation has come to accept as an article of faith that there is an historical trend towards the progressive depreciation of currencies. On this thesis the extrapolators, as they are called, will complacently prognosticate that the dollar of 100 AD will have a purchasing power about equivalent to that of 19 cents in 1900.

The great bogy today, especially in the English-speaking countries, is still deflation, not inflation. Any measures to check inflation have to be accompanied by assurances that, at the first sign of deflation, countermeasures will be swiftly applied.

It is not surprising that in this intellectual and political climate governments have been slow to act in face of obvious inflationary developments. This, apart from the fact that there is more than a suspicion that the modern State has a sneaking predilection for inflation which floats off the fixed money charges on its Budget.

It comes, therefore, as a welcome surprise that the Canadian Government, confronted with growing inflationary pressures on its borders and in the world at large, has had the courage to cut its exchange-rate loose with the obvious hope and intention that the Canadian dollar should revalue itself *upwards*. Restored parity with the United States dollar is undoubtedly in the minds of the shrewd Canadian monetary authorities who incidentally include some of the most competent experts in the world on these problems.

The rise in the Canadian dollar rate will cheapen imports in terms of that dollar and thus put a brake on the domestic price level and the cost of living. This move by Canada makes a live issue of the future of the sterling rate. There has been a tendency to pooh-pooh any suggestion that the low rate of 2.80, fixed at the devaluation last year, might be in need of revision in the near future.

But if there was nothing sacrosanct about 4.03 there is nothing sacrosanct about 2.80. If prices abroad, particularly in the United States, continue to surge upwards, the repercussions on import prices here and thus on the cost of living will create a problem for the Government which will not be solved by sitting on a fence marked 2.80.

From Time and Tide, London, October 7, 1950

Inflation's Trojan Horse

by Edward H. Collins

America's pay-as-you-go principle of financing defence implies lower standards of living for all—including wage earners. Yet full employment enhances their power to resist and is a Trojan horse in the war against inflation

Congress has passed the first emergency revenue bill directly attributable to the post-Korea defence programme. Other bills for the same purpose are scheduled for later action probably in 1951.

The first of these measures alone—the one just passed—calls for between 4.5 billion dollars and 4.8 billion dollars in new taxes. Yet it would not have served to put the Government on a Pay-as-you-go basis even if there had been no Korean invasion. For when that world-shaking event occurred the Government already faced the prospect of a 5.1 billion dollar deficit. We won't, therefore, be making even a beginning of putting the defence programme itself on a cash-and-carry basis until we start paying the taxes that will be assessed against us in the second emergency revenue bill, a bill on which work has not yet been started.

Now, the first revenue bill wipes out all the tax reductions granted the individual income taxpayer in the two post-war revenue acts of 1945 and 1948. In other words, so far as the individual taxpayer is concerned, every dollar paid to put the rearmament programme on a cash basis will be a dollar superimposed upon the tax bill he paid at the height of World War II.

This means that for some years to come the American taxpayer, as such, must resign himself to a substantial reduction in his living standard. It is not, needlessly to say, a very happy prospect. Yet it is a prospect that most taxpayers would doubtless accept willingly and eagerly if they were convinced that every element in the economy was prepared to accept the implications of the pay-as-you-go policy, and if they were convinced that it was going to protect them against the far worse evil of inflation.

Taxes and Prices

But the reduced standard of living which is necessitated by war or preparation for war, expresses itself in numerous ways other than higher taxes, the most important of these being at least a moderate rise in the level of consumer prices. And when strongly organized labour unions, finding themselves in a sellers' market for their services, demand that they be indemnified for these higher prices through higher wages, they are defeating the whole purpose of the pay-as-you-go policy.

Needless to say, a company which

From The New York Times, September 25, 1950

gratuitously grants a wage increase to its workers for fear they might be "hired away" by a competitor, is subject to the same indictment. Not only do such "policies" violate the principle of universal sacrifice, but they have the economic effect of nullifying the anti-flationary effects of higher taxes.

Obviously, we are not making any headway in the fight on inflation if we draw off 5 billion dollars in purchasing power by raising taxes and then turn around and pump 5 billion dollars of fresh purchasing power into the system through a general increase in wages.

U.N. and Full Employment

AFTER an extensive discussion of the report on National and International Measures for Full Employment (see *The Economic Digest*, September, 1950, pp. 410-415), the Economic and Social Council of the United Nations on August 15 adopted a resolution concerning future action on this question. It decided to place on its agenda once every year the problem of full employment.

Each government is asked to publish annually a statement of its economic objectives, to announce the standard by which it defines the meaning of full employment as a continuing objective of policy, and periodically to review the policies for the achievement of such objectives as it may set for itself.

The reports submitted by governments will be analysed by the Council. In connection with the questionnaire already circulated concerning policies for full employment, governments will be asked to furnish estimates of their balance-of-payments position.

The concrete proposals for international action made by the experts in their report have not been accepted ; but a new group of three to five experts is to prepare a report "formulating and analysing alternative practical ways of dealing with the problem of reducing the international impact of recessions that may arise". A special report will also be prepared on unemployment and under-employment in undeveloped countries.

Meanwhile, the United Nations has published its first report on the implementation of full employment policies, covering the second half of 1949 (Lake Success, August 1950. Available at H.M. Stationery Office). The replies are analysed in five groups: (1) countries with very low unemployment ; (2) countries with relatively low unemployment ; (3) countries where unemployment assumed serious proportions during the period under review ; (4) under-developed countries ; (5) non-self-governing countries of the U.K.

In a second part of the report, selected replies (from Belgium, Canada, India, Norway, Switzerland, the U.K. and the U.S.) are reproduced.

Progress of Railway Electrification in Europe

STEADY progress is being made with railway electrification, a development which increases the capacity of the lines concerned while often improving the quality of the service offered, and making economies in fuel consumption.

An indication of the way in which electrification is developing may be seen from the figures in the table, showing the percentage of line electrified in 1938 and 1949 in a number of countries in which electrified lines represent a significant proportion of the total.

The relative importance of electrification is much greater than these figures suggest, as it is the lines carrying heavy traffic which tend to be electrified first. In Sweden, for example, rather more than four-fifths of the traffic is electrically hauled, although less than half the line is electrified.

(Percentage of Railway Line Electrified)

	1938	1949
Austria	14.7	17.6
France	7.8	8.9
Italy	29.5	35.6
Netherlands ...	15.2	23.9
Norway	10.7	20.0
Sweden	42.0	46.3
Switzerland ...	75.5	94.6
United Kingdom	4.3	4.6

From Annual Bulletin of Transport Statistics 1949, *Economic Commission for Europe, Transport Division Geneva*, 1950

EAST-WEST UNDERSTANDING

There is in the twentieth century a bond between East and West which the nineteenth century was without. This is in respect of economic affairs. We are slowly seeing in the East that our underdeveloped areas will need to be helped by Western capital; the West is slowly seeing that its democracy depends on its furnishing in time such ample aid. The London Conference is merely a symbol of this new historical current which is helping, all too slowly, to bridge the estrangement which the nineteenth century left behind. What needs understanding by the West is the economic background of the East against which the current of our history is now strongly flowing. The torment in Asia's mind is in large part the outcome of Asia's poverty ; if a sincere effort is made to overcome our peculiar economic disabilities we will need far less understanding on other things. And, in this respect, the rich nations need as much understanding as the poor.

Nationalism, that powerful current of our time is still the seat of the most powerful emotions. To the extent that it gives coherence to each unit it is good ; to the extent that it divides us from other men it is evil. The power of the mind must be employed to reduce the passion of the heart. To approach our common problems along nationalistic lines is surely to choose the less noble, if not the more dangerous, way.

The Eastern Economist, New Delhi, October 13, 1950

House Subsidies Going Astray

by ERIC G. HOWES

Are we moving towards an annual rent subsidy bill of £154 million, and a local authority housing debt exceeding our pre-war National debt ?

A very remarkable and disquieting picture of our national housing finance is painted in the current *Building Societies' Gazette* by a writer, who evidently knows what he is talking about, MR. Eric G. HOWES, manager of the Redditch Benefit Society.

Broadly speaking, what MR. HOWES says is that, thanks to the housing subsidy system the local authorities are building up a debt which, if things go on as they are, will reach the monstrous total of £8,000 millions by 1965 and that even so a large proportion of the subsidies given by the State and the local councils do not "get through" to the people who need and deserve assistance.

This shortly is how he makes out his case :

(1) Since the end of the war local authorities have built some 500,000 permanent houses. In respect of each house the Exchequer is committed to an annual payment in aid of rent of £16 10s. and the local authority to one of £5 10s., making £22 per house per annum over a period of 60 years. This represents a present value capital outlay of £300 million or £600 per house.

(2) This £600 per house is in addition to the contract price of the house, cost of land and services, etc. These costs range from £1,300 to £1,800 a house, so that, viewed from the standpoint of the public finances, the total capital cost of a house is from £1,900 to £2,400.

(3) The £22 annual payment per house is equal to 8s. 5d. per week and was intended to bring down the rent of the average council house to the level which would enable poorer working-class families to live in decent comfort.

(4) But, says MR. HOWES, this intention is being frustrated. It is being frustrated in two ways. First, the local authorities are building bigger houses, houses which on an average represent an increase in rent of 5s., including provision for the correspondingly increased repair allowance. Secondly, the falling off in productivity per man-hour in the building industry has had the effect of increasing the rent, as compared with the average pre-war house, by another 9d. per week.

Therefore, concludes MR. HOWES, the larger part of the rent subsidy goes not in providing the required accommodation more cheaply but in providing better accommodation, which at any rate was not the original intention and is probably not nationally justifiable ; and a part is in effect a subsidy not to tenants but to building workers. Only 2s. 8d. per week, he contends, gets through to the tenant in the form of lessened expenditure.

Summarised by Oscar Hobson, News Chronicle, London, September 11, 1950

It has been estimated that (though by the end of this year there should be a house of some sort for every family) some eight million new houses ought to be built by 1965. At the present four out of five proportion of subsidised houses this would mean something like seven million subsidised houses by 1965, with more than half the families living in subsidised houses ; it would mean an annual subsidy bill of £154 million and local authority debt for housing alone standing, as already indicated, at a bigger figure than the National Debt in 1939 !

House Repair Costs Up by 150 Per Cent.

Startling evidence of maintenance and management costs of local authorities

THIS table (compiled from the Revenue Accounts) shows expenditure by the four largest local authorities in England on repairs, management, supervision, insurance, etc. of their houses. The period covered is the year ended March 31, with the statutory allowance on privately-owned houses of 25 per cent. of the exclusive rents. References are given to books and pages from which the information was obtained, and it should be noted that the figures include local authority post-war houses, on which few repairs should be necessary. If these figures are averaged, it will be found that the local authorities are spending 2½ times the 25 per cent. allowance given to private owners under Schedule "A". The table is only intended to show that repairs, etc., even when done on a large scale, have gone up to an alarming extent in relation to rents.

LONDON L.C.C.		BIRMINGHAM		LIVERPOOL		MANCHESTER	
Maintenance Estimates 1950-51		Financial Statement		1948-49 Accounts		Treasurer's Report, shops houses and temporaries mixed	
Rent ex rates	£	Rent ex rates	£	Rent ex rates	£	Rent ex rates	
No. 1 Account Page 109	£2,809,594	Page 153	£1,182,665	Page 171	£1,739,256	Page 43	£760,065
Actual Repairs Page 108	1,523,351	Actual Repairs Page 152	561,878	Actual Repairs Page 168	457,938	Actual Repairs Page 51	299,075
Supervision Page 111	389,024	Supervision and Management Page 152	143,104	Supervision and Management Page 170	124,302	Management Page 42	65,535
Management etc.	281,904	Insurance Page 152	4,478			Misc. Expenditure Page 42	43,803
						Disinfestation Page 42	2,870
Total Spent	£2,194,279		£709,460		£582,240		£411,283
Compare Private Owner's 25% of rental	£702,398		£295,666		£434,814		£190,016

From Property (National Federation of Property Owners), London, August, 1950

What's Wrong with Co-ops?

by JOHN MARS

To increase their share of national consumption, co-operative societies would have to increase their hold on the non-food trades and enter certain new lines of business

CONSUMERS' control as practised in Britain is superior to alternative controls in at least two respects: It is essentially egalitarian and makes the short-term, if not long-term, needs of the common consumers the measure of good or bad use of resources.

Its original motivation was highly commendable: to protect the working class consumers from exploitation by truck shops, local distributive monopolies, manufacturing monopolies and to protect the distributive employee from exploitation. It later developed into an indirect savings bank and a political pressure group.

In the egalitarian welfare state of 1950 consumers' co-operation could still powerfully protect consumers of all classes against monopolistic exploitation, could reduce distribution costs by competitive pressure and help to establish the supremacy of the consumer in the selection, qualities and prices of the goods produced.

Actually, consumers' retail and wholesale societies have become one type of business organisation out of many and have become reconciled to the continued co-existence of private shops and private production establishments. There is still a missionary spirit about, but it is becoming weaker and rarer. Why should that be so?

Let us enquire what has happened between 1934, when the great depression gave way to recovery, and the two post-war years 1947 and 1948, for which the latest issues of *Co-operative Statistics* are available.

This period from 1934 to 1948 is one of nearly continuous growth of national output and income, both in physical and value terms. The consumers' movement was not subject to the ravages of a trade cycle during this period, but only to war-time restrictions on absolutely equal terms with private firms. Its relative progress or decline inside the national economy must, therefore, be primarily imputed to its institutional vitality or weakness. This is the point which we desire to clear up.

Facts and Figures

A few figures will help to crystallize our ideas. The total number of members of retail societies in Britain only was 7.1 million in 1934, 9.9 million in 1947 and 10.1 million in 1948, a growth of 39 per cent. and 41 per cent. respectively, which outstrips the corresponding population growth of 5.5 per cent. and 7.3 per cent.

Generally speaking the co-operative share in national consumption is highest in foodstuffs and coal, smaller in clothing and smallest in other goods.

Here are the relevant figures of the co-operative share in national consumption.

	1938	1947	1948
Foodstuffs & Tobacco	13.6%	11.9%	12.1%
Furniture & Hardware	3.7%	5.1%	5.7%
Coal	11.5%	14.8%	15.0%
Footwear	8.7%	9.3%	8.9%
Male Clothing ...	5.4%	5.7%	5.7%

Several conclusions can be drawn from these figures: (1) The co-operative share in these types of national consumption was increased between 1938 and 1948 except in foodstuffs and there the share was growing again. (2) In mass consumption goods of a standardised nature (foodstuffs and coal) the co-operative share was highest (reaching 12 per cent. and 15 per cent. respectively in 1948.) (3) The co-operative share was lowest where style and fashion count (i.e., furniture and male clothing). (4) The bulk of co-operative sales were foodstuffs (72.3 per cent. of total sales in 1948) the prices of which changed least during the period 1934 to 1948 so that the value of co-operative sales grew more because of of increasing physical volume and less because of price rises. For the nation as a whole food accounted only for 27.4 per cent. of all consumption expenditure.

To increase the co-operative share in total national consumption co-operative societies would have (a) to increase their existing share in non-food trades ; (b) to enter certain consumption trades practically for the first time such as the alcoholic drink industry (which is anathema to co-operators), the housing estate industry (houses and flats for letting), the motor coach industry, the cinema industry, and the hotel industry. Pioneering attemps are made by some societies, but the urge to such innovations is small in the movement as a whole.

WHAT PRICE GOVERNMENT BONDS !

(1) **The Great Illusion** If Government bonds are "assets" to the business of America they are also "liabilities " of the business of America. They should be on both sides of the balance sheet, or neither. There is no national net worth in these bonds, because as a nation we owe as much as we own. They are only a fiction of something of net worth. The depleted equipment of the nation cannot be replaced from assets which have no real net worth. A person who spends more than his income does not consider deficit to be any asset on his statement of property he owns. Why, then, do we as a nation consider shares in government deficits to be " assets " ?

This idea that government bonds are national net worth, and can be cashed to replace our depleted equipment as a nation, is one of the greatest illusions of our illusory time. It is the same as though we were to believe that a nation could be swept into prosperity by scattering " I-owe-me's " by airplane all over the land ; you can't eat them ; you can't wear them ; you can't reside in them ; at best the process might be credited with being a form of amusement.

From Eating the Seed Corn by F. A. Harper, Foundation for Economic Education Inc., New York

(2) **Why not a Guaranteed Value ?** It has been suggested that United States savings bonds should include a cost-of-living adjustment provision which would assure the patriotic citizen-investor that his pay-off at maturity would be in the form of real purchasing power rather than in a nominal number of dollars of what might be depreciated purchasing power. Such a provision would also encourage the Government to adhere firmly to non-inflationary fiscal practices.

Guaranty Survey, Guaranty Trust of New York, August 31, 1950

World Economic Development

by EUGENE STALEY

PROFESSOR STALEY's important book on World Economic Development can still be read with profit. The first edition was published in 1944, the second in the following year taking due note of Bretton Woods steps towards meeting his call for an international development authority. Had the book been written later it would no doubt have incorporated MR. TRUMAN's proposals for assisting the under-developed countries and might have been sub-titled "The Fourth Point and its problems".

Written today or tommorrow it could be sub-titled "Essential Considerations concerning the World Plan for Mutual Aid". The actual sub-title "Effects on Advanced Industrial Countries" gives the key to the work, which dodges none of the implications of promoting the industrialisation of the under-developed countries and, in particular, that of meeting the competition in manufactures which will result from that industrialisation.

The author begins at the Atlantic Charter and its Freedom From Want provision. He finds that "when one looks at the unfilled material wants of the vast majority of the world's people it is quickly apparent that nothing but a radical advance in their *capacity to produce* will bring them within hailing distance of any modern conception of freedom from want. Even . . . the advanced countries. . . . reveal plenty of need for greater production if freedom from want is to be attained."

The practical course is not in doubt: it is to help the less advanced countries to help themselves—not only to increase and develop their agricultural (and extractive) industry but also and essentially to develop manufacturing industry. In other words the U.S., U.K., and other advanced industrial countries are invited to furnish capital, with technical advice and assistance, in order to hasten the development of their industrial rivals—rivals that, in the nature of things, have lower standards of living and lower labour costs.

"Protection" Dangers

It will clearly be futile to assist and encourage the less advanced countries to establish and expand manufacturing industries if we then proceed to "protect" ourselves from the inescapable results. PROFESSOR STALEY in no way burkes the issue. We shall be giving comfort and encouragement to the King's commercial "enemies" and we must frankly, loyally, and *intelligently* accept the consequences.

As with so many problems, once squarely faced the apparent threat to our interests resolves itself into a positive advantage. To move spare agricultural labour—and STALEY emphasises the world excess of labour in agriculture—into the simpler manufactures, and to move the labour so displaced into higher manufactures will demonstrably increase the world's

From World Economic Development by Eugene Staley, International Labour Office, Montreal

wealth.

With the developing industrial countries producing the simpler manufactures the advanced countries must be ready to welcome (or tolerate) these products, not only in competition overseas but also in the home market—where they will be a blessing to the wage-earner ; giving him (with full employment) a higher real standard of living.

As the developing countries with their cheap labour compete with and displace the manufactures of the advanced countries, so these must look more and more to the manufactures (and services) for which they are the better fitted by reason both of their special skills and of their greater capitalisation.

Adapt or Perish

But to turn to our advantage the threat and fact of competition will be no light undertaking. It involves, above all, an attitude and outlook of adaptability on the part of management and men ; a readiness to change one's trade and perhaps one's residence ; a readiness to abandon a sinking trade and adapt oneself to a rising one.

Adaptability is no new requirement for the U.K. International trade has long been moving away from the traditional trade pattern of manufactures exchanging against food and raw materials. Less than half of U.K. foreign trade has been of the traditional type since before 1900.

A 1929 table, however, shows the proportion of U.S. exports composed of the newest type of goods to be far higher than the British ; and STALEY quotes the BALFOUR Committee on Trade and Industry as stressing the need for "industrial mobility" and the urgent need for employers, managers and workers to have "a more vivid and intelligent appreciation of the importance of 'mobility' (including) a mental attitude towards change of environment and the power and will to react promptly to such changes".

Not that it is merely a question of acquiring a proper mental attitude to the need for change and adaptability. There are economic and human costs to be set against the increased wealth produced by the new industries. STALEY shows great appreciation of the non-economic losses involved—none the less real because they cannot be assessed in £. s. d.—and deals sympathetically with the difficulties and costs of the firm that has accepted the need to strike out a new line ; but he might well have discussed the net over-all economic cost to the community of the reduction or abolition of old industries against the expansion or establishment of new. Incidentally, he does not shrink from direct government assistance ; but prefers subsidies to tariffs.

If we accept the logic of developing our (potential) trade rivals and so preventing our right hand from circumventing our left, PROFESSOR STALEY has good news for us : the medicine may not be so bad after all—or there may be less than we feared. The need for change can be limited and circumscribed in a number of ways.

In aiding the expansion of the less advanced countries we shall not only be increasing their exports but also their national income and their imports. A world with a doubled income equals two worlds for trade purposes. And in a larger trade world national industries which are being elbowed out by competition can perhaps decline, or even continue on a "mark-time" basis rather than suffer a violent contraction.

STALEY stresses the great war-time expansion of capital, skills, and raw material sources as providing at once a post-war problem and opportunity. The need for repairing the devastation

of war has first priority but after that the capital requirements of world economic expansion can play a great part in easing the transition to peace-time conditions of the steel and other great war-boosted industries.

STALEY, moreover, looks to his international development authority to ensure multilateral co-operation and co-ordination. Development of the capital-poor countries could, with mutual advantage, be dove-tailed into the "trade-cycle" needs of the advanced countries. Countries willing to take delivery of capital goods at times when their production would take up slack in the advanced countries could be given a *quid pro quo* in the shape of reduced loan interest. The Authority would encourage long-term planning and would promote reciprocity and forbearance ("Greatest Mutual Benefit") so that the path towards maximum world wealth would be strewn with as few industrial casualties as possible.

Poverty and Communism

In the world of settled peace which STALEY postulated in 1944-5 we might have inclined to a more *laisser faire* attitude and demurred to pressing the pace of economic development on the ground that to increase production is to increase populations and political powers, a course that may lead all too quickly to a future of danger and uncertainty.

But today poverty is seen as the breeding-ground of Communism ; and to thrust back its boundaries, risk or no risk, a matter of urgency. As regards population PROFESSOR STALEY, supported by some striking graphs, relies on rising standards of living (and education) to apply the brake in due time. As regards political power he does not conceal the fact that industrially powerful nations will be politically powerful nations and that both politically and culturally the future is unpredictable.

The idea of adaptability, although readily acceptable at economic levels, has always encountered great difficulties on the practical terrain. In 1929, when the BALFOUR Committee reported, KEYNES' *General Theory* had not seen the light ; but today a policy of adaptability backed by the resources of full employment can and must be made attractive to the worker.

STALEY has much that is sound to say about saving and spending, about the need for matching saving by investment-spending, and about the limitations of a purely spending and pump-priming policy; he argues indeed that orders for capital goods, etc., arising from a world development policy may be the only way of avoiding unemployment in the advanced countries.

While appreciating the need for adequate investment-spending as a sub-requirement of adequate total spending we may yet be loth to admit the "only way" view ; nevertheless, we can readily agree that in so far as spending for world development proves in practice to be the only way to avoid unemployment then to say that it is free of cost is to make a gross understatement.

STALEY insists that loans are not to be in any way on a Santa Claus basis. They will be repaid, albeit with due regard to "Greatest Mutual Benefit", and he pays great attention to repayment problems. In the first place he favours easing the payment in the borrower's own currency (e.g. shares as against fixed interest bonds) and in the second easing actual transfer into the foreign currency in such a way as to bring home to the lending country "the fact that in the final analysis they cannot collect on debts except by taking goods and services."

P.E.B.

SHORTER BOOK NOTICES

ECONOMIC BULLETIN FOR ASIA AND THE FAR EAST

(*Vol. I No. I. First Quarter* 1950. *Prepared by the Research and Statistics Division of the U.N. Economic Commission for Asia and the Far East, Bangkok, August,* 1950. (*United Nations, Lake Success*).

On account of Korea and the "Point Four" programme, economic problems of Asia are in the foreground of public discussion. This new publication, therefore, makes its appearance at an opportune moment. It will be issued three times a year to supplement the annual Survey of Asia and the Far East, following the example of the Economic Bulletin for Europe.

The present issue contains a review of developments in the first quarter of this year, together with a statistical appendix, and two special articles. One, dealing with mobilization of domestic resources for development and the financial institutions in the E.C.A.F.E. Area, shows the Asiatic nations are alive to the fact that foreign assistance for development can only be of real use if it is accompanied by the utmost efforts at self-help. The other study deals with the problem of the fertilizer industry in the region. As up-to-date information on Asia has not been readily available, the Bulletin fills a gap for all students of world affairs.

ECONOMICS FOR COMMERCIAL STUDENTS AND BUSINESS MEN

(*Crew, enlarged and re-written by Leo T. Little,* 13*th edition, Jordan and Sons, Ltd.*)

"In places the book will probably be found more difficult than the original," writes Mr. Little in the preface to his rewritten edition of Crew's book. "The subject of economics itself has become difficult." A comparison with the original edition of 1914 will convince the reader that Mr. Little is too modest in the first part of his statement, but there would be little disagreement with the second part.

To attempt to write a text-book in these oscillatory days is the action of a brave man, and this edition is a masterful summary of past and present economic theory and practice. It is significant that one full third of the book deals with monetary theory, a true reflection of the financial and fiscal bias given to economics in recent years.

Figures, always well-chosen, never more than necessary, are up-to-date, and the economic institutional phenomena since 1939 are lucidly described.

The writer's desire to remain neutral on questions still much in dispute is strong enough to give some sections of the work an appearance of hesitancy, a quality not much in evidence in the text-books of earlier years. But it is this very hesitancy which gives life to the bones of a text-book. To pervert the terms of Professor Knight, uncertainty is a thing from which we all can profit. The end of text-book writers today is surely not to be authoritative, but to be provocative.

THE PEASANTS' REVOLT—1381

Philip Lindsay and Reg Groves (*Hutchinson, London,* 18/-

A beautifully-produced but otherwise disappointing book. There are at least three ways of writing history: the academic, the popular and (if you have the luck to be a genius) both at once. The authors seem to have aimed at the third but they have failed to be either academically acceptable or popularly pleasing.

PRIVATE CORPORATIONS AND THEIR CONTROL

A. B. Levy (*Routledge and Kegan Paul, London,* two volumes £3/10/-

This most impressive work is in the International Library of Sociology and Social Reconstruction of which the late Karl Mannheim was Editor. Following the pattern of this series, Private Corporations is world-wide in its scope. Inevitably the result is bulky, but the disadvantages of bulk are off-set by admirable classification of contents and reference sources, and luxurious indexing, so that reference to any particular point is easy. The particular points to which one might wish to refer are innumerable, and often not easily to be found elsewhere. And that is true whether one's interest is that of the sociologist, economist, lawyer or businessman. The erudition brought to the work makes it an encyclopaedia as well as a text-book. Part I is concerned with Historical and Economic Background ; Part II with Legal Problems of Private Corporations; but the two volumes are not divided similarly.

Some Aspects of Competition in Retail Trade. *P. W. C. Andrews, Oxford Economic Papers, Clarendon Press, Volume* 2 *No.* 2. A wide-ranging study with a verdict in favour of increasing competition.

Problems of Distribution. *R. E. Winterbottom, Socialist Commentary, London, October,* 1950. Complementary to the above. Contradictary, too, for here the verdict is that there are too many small shops and that that means unnecessarily high retail prices.

The Equalizing Effects of Death Duties. *G. A. Fijalkowski-Bereday, Oxford Economic Papers, Clarendon Press, Volume* 2 *No.* 2. A study (by sample) of the influence of death duties on the disposition of estates.

The Course of Wage-Rates in Five Countries (1860-1939). *E. H. Phelps Brown with Sheila V. Hopkins, Oxford Economic Papers, Clarendon Press, Volume* 2 *No* 2. A very thorough study. The countries reviewed are France, Germany, Sweden, United Kingdom, and U.S.A. Points studied are money wage-rates, the wage-earner's cost of living, the price level of final output, and natural income per head of the occupied population.

The Iron and Steel Act, 1949. *S. J. Langley, Economic Journal, London, June* 1950. A careful appraisement from Sheffield University.

Germany : An Experiment in Planning by the "Free" Price Mechanism. *T. Balogh, Quarterly Review, Banca Nazionale del Lavoro, Rome, June* 1950. The word "Free" in inverted commas indicates the flavour. Naturally Balogh holds that the liberal adventure in Germany is a failure, but he is as ever a brilliant advocate.

Limits on Federal Reserve. *Monthly Letter, National City Bank of New York, September,* 1950. Answering the question : "What laws, rules, or regulations are there to prevent the Federal Reserve Banks from buying the billions of U.S. Government obligations and issuing currency in payment thereof ?"

Fishery Resources of Canada. *Monthly Commercial Letter, Canadian Bank of Commerce, Toronto, August,* 1950.

Jute, The Servant of Industry. *L. C. Wright, Three Banks Review, London, September,* 1950.

Finland's Public Finances in 1949. *Heikki Valvanne, Bank of Finland Monthly Bulletin, Helsinki, August,* 1950.

Economics and Business. *Sir Henry Clay, Progress, Autumn* 1950, *Lever Bros. and Unilever Ltd., London.* A plea for the further extension of regular consultation between business men and economists.

Devaluation One Year After. *T. W. Kent, Lloyds Bank Review, October,* 1950. Searching, provocative, an admirable antidote to complacency.

Economic Realities of Pensions. *Guaranty Survey, Guaranty Trust Company of New York, September* 28, 1950. In U.S.A. 7 million people are covered by pensions plans of industry, and there is growing pressure to make such provisions universal. In business the accent is on youth. Yet the number of persons 65 years of age or older has risen from 3 million to 11½ million in the past fifty years, and may reach 20 million in the next 30 years

Output per Head in Different Parts of the United Kingdom. *C. E. V. Leser, Journal of Royal Statistical Society, London, Vol. CXIII, Part II,* 1950. An intensive study of the year 1935. "The present analysis shows that low output per head cannot be due to a high proportion of non-operatives : if anything this would have the effect of raising the output per head".

A Guide to Co-operative Statistics. *J. A. Hough, Journal of Royal Statistical Society, London, Vol. CXIII, Part II,* 1950. Explains where all relevant statistics are to be found.

Housing—Some Economies in Financing. *P. S. Phillips, Local Government Finance, London, October* 1950. The author's point of view is sufficiently indicated by the fact that he is Treasurer of the Uxbridge U.D.C.

Uniform Cost Accounting *David Solomons, Economica, London School of Economics August,* 1950. Part I of a study of a subject of growing importance. It discloses almost fantastic variation in practice.

The Structure of the Western Germany Monetary System. *H. J. Abs, The Economic Journal, London, September,* 1950.

The Sterling Balances of the Sterling Area, 1939-49. *H. A. Shannon, The Economic Journal, London, September,* 1950. More interesting as a piece of detective work than for any facts revealed. But why should this sort of task be imposed upon the community ?

Production Statistics and Results of First Cinema Enquiry. *Board of Trade Journal, London, August,* 12, 1950. Continuing the series of quarterly statistics of which the first appeared last May.

Canada and the Dollar-Sterling Problem. James S. Duncan, *Board of Trade Journal, August* 12, 1950. The author is chairman of the Dollar-Sterling Trade Board of Canada, and it is the Canadian approach that he sets forth in a comprehensive study.

Town Planning and the Public. *Planning No.* 316, *August* 8, 1950, *P.E.P., London.* A review of experience of the Town and Country Planning Act of 1947.

La Reforme Agraire en Chine Nouvelle. *La Revue Internationale, Paris, September,* 1950. The viewpoint of this study is sympathetic to the Chinese Government's Communist disposition.

Australia's Capital Requirements. *Economic News, Queensland Bureau of Industry, Brisbane, May* 1950.

The Standard of Living. Honor Croome, *Current Affairs, August* 19, 1950, *Bureau of Current Affairs, London.* An excellent elementary statement for the man-in-the street.

Labour Turnover Analysis, July-December 1949. *British Institute of Management, London, August* 23, 1950. The analysis shows among other things that labour is more stable in large than in small firms. A high proportion of male leavers resign for reasons under control of management.

UNITED NATIONS PUBLICATIONS

Direction of International Trade, January-March 1950. *Joint Publication Statistical Office of U.N., I.M.F., I.B.R.D., Lake Success, August* 10, 1950. First of a regular monthly series, showing the latest data available on the direction of trade for nearly 100 countries. The current issue contains data for the years 1948 and 1949 and the first quarter of 1950.

Economic Bulletin for Europe. First Quarter 1950. Economic Commission for Europe, Geneva, July 1950. (*Available from H.M. Stationery Office*). Includes a special article on "changes in the relationship between European production and trade" which shows that Europe is less dependent on imports of foreign raw materials than it was before the war.

Commodity Reports, Fertilizers. FAO, Washington, August 10, 1950. (*Available from H.M. Stationery Office*).

DO SAVINGS EVER BECOME CAPITAL ?

Our rulers are said to be contemplating the imposition of another capital levy. I never did understand economics, and now that they are married, not very happily, to political dogma I find it harder than ever to make sense of them. Capital, for instance, I realise to be a thing the possession of which by an individual is in some way discreditable and unjust, so that to confiscate part of it is perfectly *comme il faut*. Savings, on the other hand, are quite different, the citizen who accumulates them being a splendid fellow and the funds he has "put by" axiomatically sacrosanct. But to my simple mind it appears that there must be a point, in mathematics if not in ideology, at which the worthy, frugal chap who goes on saving and saving becomes by virtue of the size of his hoard a beastly capitalist ; and it would be interesting to know what our rulers consider the relevant figure to be.

Stix, Spectator, London, September, 29, 1950

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